COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF GAS AND ELECTRIC RATES OF LOUISVILLE GAS AND ELECTRIC COMPANY	)))	CASE NO. 90-158

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O R D E R

On June 29, 1990, Louisville Gas and Electric Company ("LG&E") filed an application with the Commission requesting authority to increase its electric and gas rates for service rendered on and after August 1, 1990. The proposed rates would increase annual electric revenues by $31,015,938, an increase of 6.22 percent, and annual gas revenues by $3,837,454, an increase of 2.24 percent. These increases represent an annual increase in total operating revenues of $34,853,392, or 5.43 percent, based on normalized test-year sales. This Order grants an increase in annual electric revenues of $5,451,758, an increase of 1.17 percent, and an increase in annual gas revenues of $524,487, an increase of .30 percent. These increases represent an annual increase in total operating revenues of $5,976,245, or .93 percent, based on normalized test-year sales.

The Commission granted motions to intervene filed by the Attorney General, by and through his Utility and Rate Intervention Division ("AG"); Jefferson County ("Jefferson"); the city of Louisville ("Louisville"); the Department of Defense of the United States ("DOD"); the Kentucky Industrial Utility Customers

("KIUC"); the Paddlewheel Alliance ("Paddlewheel"); the Kentucky Cable Television Association, Inc. ("KCTA"); the Metro Human Needs Alliance, Inc., which assists low-income households ("MHNA"); the International Brotherhood of Electrical Workers, Local 2100; and Reynolds Metals Company. The Commission suspended the proposed rate increase through December 31, 1990 in order to conduct an investigation into the reasonableness of the proposed rates. A public hearing was held in the Commission's offices in Frankfort, Kentucky, on November 7-9, 19-21, and 26, 1990 with all parties of record represented. Simultaneous briefs were filed on December 14, 1990. All information requested during the hearing has been submitted.

COMMENTARY

LG&E is a privately owned electric and gas utility which generates, transmits, distributes, and sells electricity to approximately 321,300 consumers in Jefferson County and in portions of Bullitt, Hardin, Henry, Meade, Oldham, Shelby, Spencer, and Trimble counties. LG&E distributes and sells natural gas to approximately 243,400 consumers in Jefferson County and in portions of Barren, Bullitt, Green, Hardin, Hart, Henry, Larue, Marion, Meade, Metcalfe, Nelson, Oldham, Shelby, Trimble, and Washington counties.

TEST PERIOD

LG&E proposed the 12-month period ending April 30, 1990 as the test period for determining the reasonableness of the proposed rates. LG&E also proposed to reflect the impact of the commercialization of the Trimble County Unit No. 1 ("Trimble

County") Generating Plant which was scheduled for late December 1990. Jefferson, Louisville, and Paddlewheel ("Jefferson et al.") and KIUC opposed this approach, stating that LG&E had created a hybrid test year which was neither fully historic nor fully projected. The Commission believes it is reasonable to utilize the 12-month period ending April 30, 1990 as the test period in this proceeding. In utilizing the historic test period, the Commission has given full consideration to appropriate known and measurable changes.

NET ORIGINAL COST RATE BASE

Trimble County

LG&E proposed a total company net original cost rate base of $1,444,036,873. Trimble County was reflected in rate base by including test year end Construction Work in Progress ("CWIP") of $677,170,687, plus estimated additional expenditures through December 31, 1990 of $37,829,317, less $178,750,000 to reflect the 25 percent disallowance for Trimble County ordered by the Commission in Case No. 9934.[1] LG&E also included in its proposed accumulated depreciation the first year depreciation expense on the December 31, 1990 estimated level of investment in Trimble County, exclusive of the 25 percent disallowance. LG&E cited two reasons for including Trimble County in the net original cost rate base. First, it stated that the Trimble County expenditures are known and measurable; and second, it claimed that the Settlement Agreement, Article IX, approved in Case No. 10320,[2] provide an

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1 Case No. 9934, A Formal Review of the Current Status of Trimble County Unit No. 1, Order dated July 1, 1988.

absolute right to recover 75 percent of its Trimble County investment, including depreciation.

While the AG, Jefferson et al., and KIUC all filed testimony opposing LG&E's proposed treatment of Trimble County, none of these intervenors prepared a net original cost rate base. Their testimony focused on the impact that LG&E's proposals had on total capitalization, discussed later in this Order.

The Commission finds that the post test-year Trimble County expenditures are not known and measurable but, rather, are a moving target. On numerous occasions during the course of this case, LG&E revised its estimated December 31, 1990 level for Trimble County CWIP. In fact, LG&E's most recent revision discloses that almost $11,000,000 of Trimble County CWIP will not be spent until after January 1, 1991.

In proposing this rate base treatment for Trimble County, LG&E has ignored a basic concept of rate-making, the matching principle. While all rate base items except Trimble County are established at actual April 30, 1990 levels, LG&E has included a post test-year plant addition for Trimble County CWIP and the related accumulated depreciation at the estimated December 31, 1990 level. The Commission has a well-established, rate-making policy on the inclusion of post test-period plant additions. All utilities under the Commission's jurisdiction were given notice that, if a historic test period is used, adjustments for post

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2 Case No. 10320, An Investigation of Electric Rates of Louisville Gas and Electric Company to Implement a 25 Percent Disallowance of Trimble County Unit No. 1, Order dated October 2, 1989.

test-period plant additions should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions.[3] LG&E acknowledged that it was aware of this policy but argued that it should not apply to this case because the policy was announced after the Settlement Agreement was signed on August 11, 1989.

The Commission is not persuaded by LG&E's argument. The date that the Settlement Agreement was signed has no particular significance in determining the applicability of the rate-making policy announced on August 22, 1989 in Case Nos. 10201[4] and 10481. The Settlement Agreement did not become binding and enforceable until approved by the Commission on October 2, 1989, six weeks after the Commission declared that:

> Therefore, in cases filed after this decision is issued, the Commission gives notice to Columbia [Kentucky-American] and other utilities under its jurisdiction that: 1) adjustments for post test-period additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions. . . .[5]

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3 Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, Order dated August 22, 1989, page 5.

4 Case No. 10201, Adjustment of Rates of Columbia Gas of Kentucky, Inc., Order dated August 22, 1989.

5 Case No. 10201, Order dated August 22, 1989, page 6; and Case No. 10481, Order dated August 22, 1989, page 5.

This rate-making policy, having been announced before the Settlement Agreement was approved, and long before this rate case was filed, is applicable and controlling. Further, there is no language in the October 2, 1989 Order approving the Settlement Agreement that allows LG&E to disregard this policy.

Nevertheless, this Commission also recognizes that Trimble County represents a significant addition to LG&E's utility plant in service. By the date the rates authorized in this Order take effect, Trimble County will be in commercial operation and all Trimble County expenditures will be reclassified from CWIP to plant-in-service. Therefore, the Commission must consider the commercialization of a major plant addition and at the same time adhere to rate-making concepts, time tested for fairness and reasonableness.

We believe it fair and reasonable in this instance to include in LG&E's net original cost rate base the test-year-end Trimble County CWIP. This amount, net of the 25 percent disallowance, is $507,878,016. This rate-making treatment is essentially the same that LG&E has received throughout the construction of Trimble County. The Commission also finds it reasonable in this instance to allow depreciation expense on 75 percent of the Trimble County CWIP balance as of the end of the test year. The first year depreciation expense has been included in the accumulated depreciation used in determining the net original cost rate base. This approach properly recognizes the known and measurable fixed cost associated with the commercialization of Trimble County. The Commission cannot and will not include in rate base the post test-period plant additions for Trimble County or the related first year depreciation expense. To do otherwise would disregard established, and we feel fair, just and reasonable rate-making practices enunciated and adopted in prior Commission decisions concerning post test-period plant additions.

Fuel Inventory

LG&E proposed to include $14,297,235 as fuel inventory in its rate base calculations. This amount represents the test-year end balance for the fuel inventory account. During the hearing, LG&E indicated that it began to purchase coal for Trimble County in January 1990, but had not adjusted the fuel inventory to reflect a 25 percent disallowance of the Trimble County coal. The AG proposed to remove 25 percent of the increase in the fuel inventory between April 30, 1989 and April 30, 1990, stating the entire increase had to be related to Trimble County.

Based on a monthly account balance for fuel inventory review, the Commission believes it is more appropriate to use a 13-month average balance for fuel inventory in the calculation of rate base. The use of a 13-month average balance is consistent with our usual practice. The Commission also believes it is reasonable to remove from the fuel inventory 25 percent of the coal inventory related to Trimble County coal. The 13-month average balance for fuel inventory, including the Trimble County coal was $10,280,683.[6] The Commission has calculated a 13-month average balance, removing the Trimble County coal from each monthly

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6 Response to Commission's Order dated June 29, 1990, Item 9.

balance, and finds that $10,270,961 should be used in the calculation of rate base.

Materials, Supplies, and Prepayments

In determining its net original cost rate base, LG&E used the test-year end balances for materials, supplies, and prepayments. The AG proposed to remove 25 percent of the increase in materials and supplies between April 30, 1989 and April 30, 1990, stating the entire increase had to be related to Trimble County. The Commission has reviewed the monthly account balances for these accounts, and as discussed previously, believes it is more appropriate to use a 13-month average balance for these accounts in the calculation of rate base. The Commission also believes it is reasonable to remove from materials and supplies 25 percent of any amounts related to Trimble County. During the hearing, LG&E indicated that $1,945,000[7] was included in materials and supplies for Trimble County. The 13-month average balance for materials and supplies, including the Trimble County materials and supplies, was $32,691,260.[8] The Commission would prefer to adjust the Trimble County amounts out on a monthly basis, and then compute the 13-month average. In this instance, the detailed information

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7 Transcript of Evidence ("T.E."), Volume IV, November 19, 1990, pages 181 and 182.

8 Response to Commission's Order dated June 25, 1990, Item 9.

is not available. Therefore, the Commission has deducted $486,250[9] from the $32,691,260 average, and included $32,205,010 in rate base for materials and supplies. We included $748,304[10] for prepayments in our calculation of rate base.

Stores Expense

The AG also proposed to remove 25 percent of the increase in stores expense between April 30, 1989 and April 30, 1990, for the same reason stated in his adjustment to materials and supplies. At the hearing, LG&E stated that $434,000 in stores expense was related to Trimble County.[11] The Commission believes it is appropriate to remove 25 percent of its Trimble County stores expense from the rate base calculations. The test-year-end balance of $5,790,584 has been reduced by $108,500[12] to reflect the removal of the 25 percent Trimble County stores expense.

Gas Stored Underground

LG&E proposed to include $20,450,243 as gas stored underground in its calculation of rate base. This amount represented a 12-month average balance of the gas stored underground account. Again we believe it is more reasonable to use the 13-month average balance, and have included $19,515,080 as gas stored underground in the calculation of rate base.

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9 $1,945,000 x 25 percent = $486,250.

10 Response to Commission's Order dated June 29, 1990, Item 9.

11 T.E., Volume IV, November 19, 1990, pages 181 and 182.

12 $434,000 x 25 percent = $108,500.

Cash Working Capital Allowance

LG&E determined its cash working capital allowance using the 45 day or 1/8 formula methodology. This Commission has traditionally used this approach in rate cases and do again here. We have adjusted the allowance for cash working capital to reflect the accepted pro forma adjustments to operation and maintenance expenses.

In determining the cash working capital allowance, LG&E deducted from the operation and maintenance expenses the gas supply expenses. The level of gas supply expenses removed did not equal the amount LG&E deducted in its operating expense adjustment for gas supply expenses. It is best to use the same amount in both adjustments. Therefore, we have used the operating expense adjustment level of gas supply expenses in the calculation of the cash working capital allowance.

Based upon the previous findings, we have determined the net original cost rate base for LG&E at April 30, 1990 to be as follows:

	Electric	Gas	Total
Total Utility Plant	$1,915,177,722	$221,751,683	$2,136,929,405
Add:			
Materials & Supplies	46,804,173	1,353,882	48,158,055
Gas Stored Underground	0	19,515,080	19,515,080
Prepayments	621,092	127,212	748,304
Cash Working Capital	32,815,128	4,441,938	37,257,066
Subtotal	$ 80,240,393	$ 25,438,112	$ 105,678,505
Deduct:			
Reserve for Depreciation	529,783,546	84,484,852	614,268,398
Customer Advances	1,572,719	5,134,306	6,707,025
Accumulated Deferred Taxes	193,385,140	19,093,760	212,478,900
Investment Tax Credit (Prior Law)	1,127,320	427,400	1,554,720
Subtotal	$ 725,868,725	$109,140,318	$ 835,009,043
NET ORIGINAL COST RATE BASE	$1,269,549,390	$138,049,477	$1,407,598,867

Reproduction Cost Rate Base

LG&E presented a reproduction cost rate base of $2,605,266,805,[13] which included electric facilities of $2,238,145,899 and gas facilities of $367,120,906. LG&E estimated the value of plant in service, plant held for future use, and CWIP at the end of the test year. LG&E also reflected the same adjustments it had included in its net original cost rate base. We have given consideration to the proposed reproduction cost rate base.

CAPITAL

LG&E proposed a total capitalization of $1,384,481,820.[14] Included in the total capitalization were five adjustments, which

13 Fowler Direct Testimony, Exhibit 5.

14 Fowler Direct Testimony, Exhibit 2, page 1 of 2.

LG&E allocated on a pro rata basis to all components of capital. The five adjustments were for the Job Development Investment Tax Credit ("JDIC"), the 25 percent disallowance of test year Trimble County CWIP, the unamortized balance of extraordinary retirements as determined by the Commission in Case No. 10064,[15] the estimated additional expenditures for Trimble County through December 31, 1990 net of the 25 percent disallowance, and the capital costs relating to LG&E's new office building.

The AG proposed a total capitalization of $1,352,739,019.[16] The AG added to total debt capital the difference between the 12-month average balance of gas stored underground and the April 30, 1990 balance. The AG deducted from common equity the entire 25 percent disallowance of test-year Trimble County CWIP and 25 percent of the net increase in fuel and supplies increases. After making these adjustments, the AG allocated on an adjusted pro rata basis the JDIC, the unamortized balance of extraordinary retirements, and the capital costs relating to LG&E's new office building. The AG stated that the adjustment to debt capital was necessary because the test-year end balance was not representative of the 12-month average balance, and it was logical to assume that the gas balances were financed by short-term debt since they varied greatly during the test year. The AG's proposal to remove

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15 Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, Order dated July 1, 1988.

16 DeWard Direct Testimony, Exhibit TCD-1, Schedule 3.

the 25 percent Trimble County CWIP disallowance totally from common equity was based on the Settlement Agreement approved in Case No. 10320, which assigned any benefits, profits, or entitlements realized on the disallowed 25 percent of Trimble County to the shareholders of LG&E. The AG stated that LG&E had put itself at risk for both the costs and rewards related to the 25 percent disallowance. MHNA supported the AG's position on this issue.[17] The AG stated that it was logical that LG&E would begin to increase levels of fuel and supplies for Trimble County and that 25 percent of those increases should also be removed.

KIUC proposed a total capitalization of $1,356,100,000.[18] KIUC began with LG&E's total proposed capitalization and removed the pro rata allocation of the estimated additional expenditures for Trimble County through December 31, 1990. KIUC stated that LG&E had created a hybrid historic and forecasted test year, inconsistently relying upon actual historic costs in some instances and totally forecasted costs in other instances.[19]

Jefferson et al. did not propose an amount for total capitalization, but took issue with LG&E's proposal to include the estimated additional expenditures for Trimble County through December 31, 1990. Jefferson et al. stated that LG&E's application had to be evaluated using the historic test year

17 Brief of MHNA, pages 7 and 8.

18 Kollen Direct Testimony, Table 6, page 42.

19 _Id._, page 13.

approach, and these additional expenditures did not constitute known and measurable items.

The Commission does not agree that an adjustment to the capitalization is necessitated by the use of an average balance for gas stored underground in the rate base determination. Nor do we agree with the argument that LG&E finances its gas stored underground exclusively through debt capital. In determining the capitalization of a utility, the Commission establishes the overall embedded capital needs which includes working capital items which vary in value throughout the course of a 12-month test period. These variations are sufficient to compensate LG&E for the monthly variations in gas stored underground. Such an adjustment is not necessary in this case.

Concerning the AG's proposal to remove the entire 25 percent disallowance of Trimble County CWIP from common equity, the Commission has ruled in prior cases that the investment in utility plant cannot be traced to specific capital sources. The AG presented no evidence to demonstrate that this investment actually came from common equity alone. Trimble County's construction has been financed by all components of capital, not solely by common equity. It is reasonable to allocate the disallowance on a pro rata basis, in order to reflect this fact. The Commission notes the inconsistency of the AG's position on this adjustment. While proposing a higher level of debt for capitalization, this higher level of debt was not reflected in the AG's proposed rate of return.

The Commission has determined that LG&E's total test-year end capitalization should be $1,355,523,360. The Commission has accepted all of LG&E's proposed adjustments to capitalization with the exception of the estimated additional expenditures on Trimble County through December 31, 1990. As has been discussed earlier in this Order, the Commission has determined that it is not reasonable nor equitable to include these estimated expenditures in rate base without concurrent adjustments to revenues and expenses. Likewise, capitalization must reflect only the level of Trimble County expenditures as of test-year end. The Commission has also adjusted the capitalization for the amount removed from rate base relating to the Trimble County coal inventory, materials and supplies, and stores expense.

PROPOSED PHASE II PROCEEDING

LG&E proposed a "Phase II" proceeding in addition to the current rate case. As proposed, Phase II would establish a process whereby LG&E could recover the allowable 75 percent portion of operation and maintenance expenses associated with the operation of Trimble County. Four areas would be addressed in Phase II. LG&E proposed to file with the Commission calculations annualizing the first three months of actual operating and maintenance expenses at Trimble County, as adjusted for unrepresentative costs. Operating expenses would be reduced by any Trimble County labor expenses recovered in this proceeding. Operating and maintenance expenses would also be reduced by 25 percent of the administrative and general expenses associated with the operation of Trimble County. Additional adjustments would be made to reduce the operating and maintenance expenses by the net revenues realized from off-system sales attributable to the allowable 75 percent portion of Trimble County and depreciation on Cane Run Unit No. 3, if the unit has been retired.[20] LG&E offered this process as a means to avoid the expenses and time associated with additional rate case proceedings, reduce the effects of regulatory lag, avoid the problems associated with a forecasted test year proceeding, and benefit LG&E's customers by allowing it to avoid future rate filings for a period of time.[21]

The AG, KIUC, and Jefferson et al. are opposed to the Phase II proposal. The AG questioned LG&E's willingness to provide information necessary to evaluate such a filing and how representative three months of operational data and off-system sales would be on a going forward basis.[22] KIUC characterized it as an attempt to inappropriately accelerate its Trimble County cost recovery and that the plan was premature and poorly designed.[23] Jefferson et al. cited problems with the three months chosen for annualization, the complexity of calculating the annualization, and how known and measurable the final results would be.[24] DOD stated that the proposal was too narrow in scope.[25]

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20 Fowler Direct Testimony, page 31.

21 Id., page 3.

22 DeWard Direct Testimony, pages 53 and 54.

23 Kollen Direct Testimony, pages 5 and 22.

24 Kinloch Direct Testimony, pages 15 and 16.

25 Brief of DOD, page 11.

The Commission does not believe it is reasonable to accept the Phase II proposal. The abbreviated proceeding would make it difficult to properly match revenues, expenses, rate base, and capital items. Significant non-Trimble County events would be excluded from Phase II. There is insufficient evidence to demonstrate that an annualization of three months of actual Trimble County data would be representative of going forward conditions.

REVENUES AND EXPENSES

For the test period, LG&E had actual net operating income of $121,674,031.[26] LG&E originally proposed several pro forma adjustments to revenues and expenses to reflect more current and anticipated operating conditions which resulted in an adjusted net operating income of $122,043,734.[27] Subsequently, LG&E proposed several correcting adjustments. The proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications.

Revenue Normalization - Electric

LG&E proposed normalized electric operating revenues of $502,388,879 based on the rates in effect at the end of the test year. In normalizing its electric revenues, LG&E made adjustments to reflect year-end customers, to eliminate a non-recurring refund, and to eliminate the effect of changing to the unbilled method of recording revenues midway through the test year.

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[26] Fowler Direct Testimony, Exhibit 1, page 1 of 3.

[27] Id., page 3 of 3.

KIUC proposed an adjustment to increase normalized electric revenues by $4,896,459 to recognize for rate-making purposes the initial booking of unbilled revenues reported by LG&E in January 1990. The adjustment proposed by KIUC reflects a 3-year amortization of LG&E's initial booked amount of $14,689,378. KIUC contends that a one-time event such as LG&E's initial booking of unbilled revenues should be given rate-making treatment consistent with that afforded the one-time downsizing for which LG&E proposed a 3-year amortization. KIUC maintains that both the downsizing costs and the initial booking of unbilled revenues should either be amortized and included in the determination of LG&E's revenue requirements or treated as one-time, non-recurring events that were booked during the test year, will not impact future earnings, and should be excluded from the determination of LG&E's revenue requirements.

LG&E's proposed adjustments are reasonable for determining normalized electric revenues. No adjustment should be made to amortize the amounts included in LG&E's initial booking of unbilled revenues. The initial booking is a one-time occurrence recorded during the test year that will not impact future periods during which the approved rates will be in effect.

Revenue Normalization - Gas

LG&E proposed normalized gas operating revenues of $194,585,467 based on the rates in effect at the time of filing its application. In normalizing its gas revenues, LG&E made adjustments to reflect normal weather conditions and year-end customers. LG&E eliminated the effect of changing to the unbilled method of recording revenues and adjusted its gas cost revenues to $130,285,428 based on its wholesale gas cost in effect at the time the application was filed.

KIUC proposed an adjustment to increase LG&E's normalized gas revenues by $5,034,036 to reflect a 3-year amortization of LG&E's initial booking of unbilled revenues. This was the same adjustment KIUC proposed for LG&E's electric revenues. For the same reasons previously cited in the discussion of electric revenues, the Commission finds that no adjustment should be made.

LG&E's normalized gas operating revenues have been reduced by $11,289,435 to $183,296,032 based on LG&E's latest gas cost adjustment effective November 1, 1990.[28] This includes gas cost revenues of $118,995,993 based on LG&E's current cost of gas. LG&E's purchased gas expense has also been reduced to this amount to reflect the current gas cost adjustment. With this adjustment, LG&E's gas operating revenues will be properly normalized for rate-making purposes.

Fuel Cost Recovery

On an adjusted basis, LG&E's electric fuel cost exceeded its fuel cost recovery by $1,737,240 during the test year. The AG proposed an adjustment to reduce fuel expense by $1,737,240 in order to match fuel cost and fuel cost recovery to ensure that the test-year under-recovery of fuel costs did not impact the setting of base rates in a non-fuel cost rate proceeding.

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28 Case No. 10064-J, The Notice of Purchased Gas Adjustment Filing of Louisville Gas and Electric Company, Order dated November 1, 1990.

LG&E maintains that the AG's adjustment was based on an erroneous understanding of the fuel adjustment clause ("FAC"). LG&E contends that the timing difference that exists between the incurrence of fuel costs and the recovery of fuel costs prohibits a matching of fuel cost and fuel revenues in any 12-month period. LG&E recounts that these types of adjustments have not been made in its past rate cases because the FAC was not designed to match revenues with expenses but was designed to track a variable cost outside of a general rate proceeding.

LG&E opines that the over- and under-recovery mechanism approved in Administrative Case No. 309[29] will improve the match between fuel cost and fuel revenues but will not provide for a full reconciliation of costs and that the proposed adjustment would deprive LG&E of the opportunity to fully recover its costs.

It is true that the current FAC does not produce an absolute synchronization of fuel costs and fuel cost recovery. Nor does it result in a full reconciliation of costs that will produce a precise matching of fuel costs and fuel revenues in any 12-month reporting period. The current FAC, however, with the over- and under-recovery mechanism approved in Administrative Case No. 309 is fully recovering, meaning that all allowable fuel costs will, over time, be recovered through the clause.

In the past, the FAC tracked fuel costs for one month in order to determine an adjustment factor that would be applied to a

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[29] Administrative Case No. 309, An Investigation of the Fuel Adjustment Clause Regulation 807 KAR 5:056, Order dated December 18, 1989 and Order dated April 16, 1990.

subsequent month's kilowatt-hour sales. This factor, applied with a 2-month lag to a different level of sales, would produce an over- or under-recovery for the billing month that was not tracked, or reconciled, in subsequent months. Once incurred, a monthly over- or under-recovery was lost, either to the utility or the ratepayer, and was not subject to true-up at a later date.

The over- and under-recovery mechanism now in place ensures that a given month's over- or under-recovery will be tracked and included in the utility's fuel cost calculation in a later month. The result is a fully recovering FAC through which all allowable fuel costs will, over time, be recovered. With recovery of fuel costs through the FAC assured, it is improper to include the over- or under-recovery of a given test year in the determination of a utility's revenue requirements. Therefore, an adjustment should be made to eliminate LG&E's test-year under-recovery of $1,737,240.

Labor and Labor-Related Costs

LG&E proposed adjustments to increase the test-year operating expenses by $3,570,447 for labor and labor-related costs. The actual cost items and the proposed adjustments to combined gas and electric operations are as follows:

	Total
Wages and Salaries	$4,010,669
FICA Taxes	334,829
Federal Unemployment	21,262
State Unemployment	41,348
Health Insurance	(636,899)
Pensions	(462,358)
Dental Insurance	29,463
Group Life Insurance	232,133
	$3,570,447

Wages and Salaries. LG&E proposed to increase wages and salaries by $4,010,669. The proposed increase reflected the effects of base wage increases granted to non-union employees during the test year, a lump sum transition payment to non-union employees during the test year, a 3 percent wage increase for union employees effective November 12, 1990, and a change in the labor capitalization rate due to the future commercialization of Trimble County. LG&E's adjustment included the annualization of the actual test-year-end levels of wages for each employee group. The November wage increase was applicable to all of LG&E's union employees, including those identified as "project temporaries" who work at Trimble County. Instead of using its test-year actual labor capitalization rate, LG&E used the capitalization rate for the month of April 1990 and adjusted it to reflect the changes expected in labor operating expenses due to the commercialization of Trimble County. This adjusted labor capitalization rate was included in all of LG&E's labor and labor-related cost adjustments.

The AG disagreed with three components of LG&E's proposed adjustment: (1) allowing the 3 percent union wage increase for the project temporaries, citing LG&E's statements that these employees would no longer be employed once Trimble County was in commercial operation; (2) the inclusion of the lump sum transition payment to non-union employees, stating that future incentive payments were not known and measurable and not appropriate for inclusion; and (3) the use of the adjusted April 1990 capitalization rate, inasmuch as LG&E had not established that

April was a representative month and that LG&E was attempting to recover Trimble County costs without making necessary adjustments to off-system sales and expenses.

KIUC recommended that all non-Trimble County pre- and post-test-year adjustments proposed by LG&E be rejected as inconsistent with the basic underlying concepts of determining the test year basis for fair, just, and reasonable rates.[30] KIUC included the November 1990 union wage increase in this group of adjustments. KIUC further argued that all pro forma adjustments proposed by LG&E be rejected in the absence of a complete set of appropriate pro forma adjustments to non-Trimble County operating income and rate base.[31]

LG&E's proposed adjustment to wages and salaries is reasonable, except for two issues. While the November union wage increase is based on the union contract, the Commission does not believe it is appropriate to allow the 3 percent increase for the Trimble County project temporaries. This particular group of employees will be terminated once Trimble County is completed.[32] The use of the adjusted April 1990 labor capitalization rate proposed by LG&E is not acceptable. The adjustment of the rate to reflect what is expected to happen when Trimble County is commercialized is not appropriate. In light of the Commission's decision to include only the level of investment in Trimble County

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30 Kollen Direct Testimony, page 25.

31 Id., page 29.

32 T.E., Volume IV, November 19, 1990, page 268 and 269.

as of test-year end, it is not appropriate to use the estimated labor capitalization rate. However, we have used the actual labor capitalization rate for the last month of the test year, April 1990, without the Trimble County adjustment. The April 1990 labor capitalization rate was 32.09 percent[33] which reduces LG&E's test-year wages and salaries by $475,505.

FICA Taxes. LG&E proposed to increase its FICA taxes to reflect increases in total wages and salaries, a change in the FICA taxable wage base, and a change in the FICA tax rate. The Commission has reviewed LG&E's calculations for the FICA taxes. It appears that LG&E did not include in its calculations the effects of the November 1990 union wage increase. Wage adjustments and payroll tax adjustments should be determined in a consistent manner and reflect the same wage increases. Based on the Commission's decisions concerning the wage and salary adjustment, the FICA taxes have been recalculated which increases LG&E's test-year FICA taxes by $133,583.

Unemployment Taxes. In calculating its proposed increase to federal and state unemployment taxes, LG&E followed the methodology outlined by the Commission in Case No. 10064. The proposed adjustment is reasonable, except for the labor capitalization rate. Using the actual April 1990 labor

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33 Response to the Commission's Order dated June 29, 1990, Item 16(d), page 7 of 16, $3,314,676 / $10,330,308 = 32.09 percent.

capitalization rate, federal unemployment insurance should be increased $14,701 and state unemployment insurance should be increased $33,850 over the test-year actual expense.

Health Insurance. LG&E's proposed reduction in health insurance costs reflected its efforts in controlling its medical benefit costs, which had been an issue in LG&E's last two general rate cases. The AG opposed the use of the adjusted April 1990 labor capitalization rate in the calculation of this adjustment. Using the actual April 1990 labor capitalization rate, it is reasonable to reduce the test-year health insurance expense by $1,003,962.

Pensions. LG&E's proposed pension expense adjustment included the results of its latest actuarial study. The AG disagreed with incorporating the results of this study in the adjustment, stating that a change in wage assumptions was not an appropriate reason to ask ratepayers to bear the additional expense. The AG also opposed the use of the adjusted labor capitalization rate. Except for the labor capitalization rate utilized, the pension adjustment is reasonable, resulting in a $566,651 decrease in test-year pension expense.

Dental Insurance. The AG again opposed the use of the adjusted labor capitalization rate in determining the adjustment to dental insurance. The Commission believes that the dental insurance expense is reasonable, except for the labor capitalization rate utilized, and has determined the test-year dental insurance expense should be decreased by $7,909.

Group Life Insurance. In determining its proposed increase to group life insurance expense, LG&E followed the methodology outlined by the Commission in Case No. 10064. Included in the calculations were the total November 1990 union wage increase and the adjusted April 1990 labor capitalization rate. For the same reasons stated concerning the wage and salary adjustment, the AG opposed the inclusion of the union wage increase for the Trimble County project temporaries and the adjusted labor capitalization rate. In accordance with our decision on the wage and salary adjustment, we have excluded the union wage increase for the project temporaries and utilized the actual April 1990 labor capitalization rate in making this adjustment, which increases the test-year group life insurance expense by $206,187.

401(k) Thrift Savings Plan. Included in LG&E's test year expenses for labor-related costs was the employer's share of its 401(k) thrift savings plan ("401(k) plan"), which totalled $449,029. This amount represented LG&E's match to amounts deferred by its non-union employees who participated in the 401(k) plan. LG&E proposed no adjustment to the test-year expense. LG&E noted that the 401(k) plan was available only to non-union employees, and very little of the matching share amount would be appropriate to capitalize.[34]

The AG proposed to reduce the test-year expense to reflect the capitalization of the expense at the test-year actual labor

[34] T.E., Volume IV, November 19, 1990, pages 304 and 305.

capitalization rate, and that it was inappropriate to totally expense this item.[35]

The Commission's initial concern that LG&E had not adjusted the test-year expense to reflect the effects of its corporate reorganization, which occurred during the test year, was allayed by LG&E's schedule which showed the annualized test-year-end employer match to be $385,349.[36] We find it reasonable to include $385,349 in expenses for the 401(k) plan, which generates a reduction of $63,680 in test-year expense.

Supplemental Executive Retirement Plan. The AG proposed an adjustment removing the test-year expense of LG&E's Supplemental Executive Retirement Plan ("SERP"). The AG stated that the SERP was designated for certain key employees, and in light of the overall compensation and fringe benefits available to those employees, the costs of the SERP should not be borne by ratepayers. We agree, which reduces expenses by $247,922.

The Commission has noted in this proceeding several references by LG&E to its analysis and outside evaluations of portions of its labor and labor-related costs. In past orders the Commission has encouraged this type of evaluation, as did the management audit in several recommendations. However, LG&E has not yet performed an overall, comprehensive evaluation of its total compensation and fringe benefits package. Such an

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35 DeWard Direct Testimony, page 31.

36 Responses to Data Requests from Hearing, filed December 5, 1990, Item 18.

evaluation would compare LG&E's total compensation and fringe benefits package with other utilities as well as with other industries in its general service area. LG&E should undertake such an analysis of its total compensation and fringe benefits package as soon as possible.

Amortization of Downsizing Costs

During the last quarter of 1989, LG&E undertook a corporate reorganization which resulted in a workforce reduction of 174 exempt and non-exempt employees. Throughout this proceeding, this corporate reorganization has been referred to as a "downsizing." The costs associated with this downsizing totalled $9,486,550 and were composed of separation allowance payments, enhanced early retirement benefits, post-retirement health care provisions, and a gain on the purchase of retired employees' annuities.[37] LG&E proposed to amortize these costs over a 3-year period, and pointed out that the annual amortization would not exceed the expected annual savings resulting from the downsizing.[38]

The AG stated that LG&E had incurred or accrued these costs during the test year, had expensed these items during the test year, that these costs would not be occurring on a going forward basis,[39] and recommended removing the test-year downsizing costs in total and not allow amortization.

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37 Fowler Direct Testimony, page 18.

38 Id., page 19.

39 DeWard Direct Testimony, pages 28 and 29.

KIUC recommended that the downsizing costs be amortized over a 10-year period linked to the Commission's acceptance of KIUC's proposals concerning unbilled revenues. KIUC stated that if its proposals concerning unbilled revenues was not accepted, the Commission should disallow recovery of the downsizing costs as a matter of consistency.[40]

LG&E incurred and recorded the downsizing costs in the test year. LG&E has already recovered these costs from its ratepayers. While adjustments in its workforce will occur, it is highly unlikely that LG&E will be involved with a downsizing of this magnitude on a recurring basis. We have removed the entire $9,486,550 of downsizing costs for rate-making purposes.

Storm Damage Expenses

LG&E proposed an adjustment to increase storm damage expenses by $723,291. LG&E calculated its adjustment by averaging the actual storm damage expenses for the last 5 calendar years and comparing the average to the test-year actual expense. The methodology was essentially the same as was used by the Commission in Case No. 10064.

Jefferson et al. performed an analysis of LG&E's storm damage expenses for the past 15 years and determined that the test-year expense level was not below normal. Jefferson et al. arrived at the same conclusion using the 5-year period LG&E used but substituting two abnormal years with two normal years of expenses.

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40 Kollen Direct Testimony, page 25.

As the Commission noted in Case No. 10064, the random occurrence of severe storm damage cannot be accurately predicted. The Commission finds it is appropriate to include for rate-making purposes a level of storm damage expense which reflects a reasonable, on-going level of expense. Traditionally, the Commission has used historic averages in determining this reasonable level of expense. In this proceeding, the Commission has available the actual storm damage expenses for the past 15 calendar years. However, simply taking the average of an historic period would not recognize the effects of inflation when looking at such a long period of time. In Case No. 90-041[41] the Commission computed storm damage expenses by taking a 10-year average of actual expenses, adjusted for inflation by using the Consumer Price Index - Urban. We feel this approach the more reasonable and the preferred methodology to be used in determining this adjustment, which results in a $520,533 increase in storm damage expenses.

Provision for Uncollectible Accounts

LG&E proposed an increase of $100,000 to the test-year level of uncollectible accounts expense based on its analysis of the appropriate total annual provision. The proposed increase was determined using LG&E's actual 1990 accrual rate for the provision.

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41 Case No. 90-041, An Adjustment of Gas and Electric Rates of the Union Light, Heat and Power Company, Order dated October 2, 1990.

Jefferson et al. opposed the increase to the expense, citing the fact that LG&E's actual charge-off history and accruals for uncollectible accounts over the past 5 years have experienced significant decreases in overall percentage.

The Commission believes it is best to leave the uncollectible accounts expense at the test-year level.

Location of Gas Service Lines

LG&E proposed an increase of $152,000 in expenses related to the location of customer owned service lines on private property. LG&E stated that this adjustment reflects the additional costs that it expects to incur as a result of placing temporary markings to locate customer service lines.[42] The Commission finds that LG&E has not adequately explained or supported the necessity for this proposed adjustment. Therefore, the Commission has not included the proposed increase in expense. The Commission is not attempting to limit this activity. However, in determining the reasonable level of expense on an on-going basis, consideration must be given to whether the activity involves an item which should be expensed or capitalized. LG&E did not provide specific evidence to allow a thorough analysis of this issue.

Headwater Benefit Assessment

LG&E proposed an increase of $108,033 in expenses to reflect the first year of a 3-year amortization of its Federal Energy Regulatory Commission ("FERC") headwater benefit assessment. The total amount of $324,098 reflects LG&E's initial FERC payment

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42 Fowler Direct Testimony, page 21.

pending LG&E challenges to FERC's original assessment of $3,600,000. LG&E recorded this payment as a deferred debit.

KIUC claimed that LG&E had no regulatory authority to defer this cost for future recovery. KIUC further stated that LG&E selectively identified this cost as recoverable since it was not specifically identified as an expense in its last rate case. Under established rate-making theory, LG&E must bear the risks and rewards of such costs as long as specific regulatory authority for differing treatment is absent. KIUC argues that by allowing this adjustment, the Commission would establish a precedential basis for future manipulation of actual earnings and improper increases in revenue requirements in future rate cases.

Given that LG&E has not heretofore recovered this payment from its ratepayers, we find it reasonable to allow LG&E to amortize the headwater benefit assessment over a 3-year period.

Depreciation and Amortization Expense

LG&E proposed to increase depreciation expense by $15,333,843 in order to annualize the test-year-end level of expense and to reflect the first year of depreciation expense on Trimble County. Of the total adjustment, $15,171,389 was for electric and $162,454 was for gas. Included in the annualization calculations were the effects of LG&E's recently completed depreciation studies of the electric and gas plant in service. The increase in the electric depreciation reflected first year depreciation expense based on estimated total cost of $715,000,000 adjusted for the 25 percent disallowance.

The AG, KIUC, and Jefferson et al. all opposed this inclusion stating that LG&E wanted to treat Trimble County in a vacuum,[43] that LG&E's proposed treatment lacked consistency,[44] and that LG&E's adjustment for Trimble County expenses did not meet the known and measurable standard.[45]

Although the first year depreciation expense based on the CWIP as of April 30, 1990 is allowed, supra, we do not include any depreciation expense on the additional expenditures incurred after test-year-end. This allowance, together with other components of LG&E's proposed adjustment we find reasonable and should be included in expenses, which results in increased depreciation and amortization expenses of $14,431,836, $14,269,382 electric and $162,454 gas.

Property Taxes

LG&E proposed to increase its property tax expense by $982,754 based on the 75 percent recoverable portion of the total expected expenditures for Trimble County estimated at $715,000,000.

The AG, KIUC, and Jefferson et al. opposed the proposed adjustment for the same reasons they expressed concerning the Trimble County depreciation adjustment.

Consistent with our other decisions relating to Trimble County, we have included a portion of the fixed costs of Trimble

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43 DeWard Direct Testimony, page 48.

44 Kollen Direct Testimony, page 19.

45 Kinloch Direct Testimony, page 11.

County to allow an increase in property taxes related to the balance of Trimble County CWIP as of April 30, 1990, which increases the test-year property tax expense by $931,857.[46]

EPRI Membership Dues

LG&E proposed an increase of $1,311,826 to expenses representing the projected 3-year average of the annual membership dues LG&E will pay the Electric Power Research Institute ("EPRI"). In order for LG&E to access the research and development programs and materials produced by EPRI, LG&E became a member of EPRI in July 1990. LG&E's evidence showed that the annual costs of its membership in EPRI would be offset by the benefits it receives from EPRI. The full membership dues are phased-in over a 3-year period, and LG&E's proposed adjustment reflects the average of those first 3 years' dues as calculated for 1990.

The AG opposed the proposed adjustment because LG&E had not quantified any cost savings attributable to its membership in EPRI. KIUC opposed the adjustment because LG&E had not proposed all appropriate pro forma adjustments. Jefferson et al. recommended the Commission withhold ratepayer support of EPRI until EPRI's restrictive membership policy is changed or, at a minimum, the Commission should exclude that portion of EPRI's dues relating to nuclear research.

LG&E should have quantified expected cost savings and included those offsetting savings. The payment of the membership dues was clearly a post-test year transaction and the benefits

46 Fowler Direct Testimony, Exhibit 1, Schedule E, line 3.

will likewise be reflected in reductions of future costs. In order to properly include the dues in this case, the cost savings expected from membership should have also been included. Because these expected savings were not shown, we feel compelled to exclude this proposed increase in expenses. The Commission realizes that utilities need to undertake research and development projects, and we are not opposed to including the costs of those projects when they are determined to be reasonable and benefits are demonstrated and factored into the proposed revenues and expenses.

EEI Membership Dues

During the test year, LG&E recorded as operating expense membership dues of $178,779 to the Edison Electric Institute ("EEI"). In Case No. 10064, the Commission excluded the membership dues to EEI because LG&E had failed to show that its membership in EEI was of direct benefit to its ratepayers.[47] The AG proposed to reduce the test year expense for various EEI-related activities it considered inappropriate. Jefferson et al. proposed that all EEI dues be removed from the test year because EEI was a utility industry lobbying organization. Although LG&E gave three examples of ratepayer benefits derived from its membership in EEI, it still has not adequately shown that there is a direct ratepayer benefit from membership in EEI. As LG&E acknowledged, all of the major benefits associated with EEI

[47] Case No. 10064, final Order dated July 1, 1988, page 60.

membership are available to LG&E independent of EEI. Further, EEI's lobbying activities are clearly a below-the-line expense.

New Office Expenses

In keeping with LG&E's position to exclude all costs associated with the relocation to the new corporate headquarters, an additional $2,489[48] in legal costs related to the headquarters relocation which were inadvertently included in the test year have been excluded.

Holding Company Expenses

In keeping with the Commission's Order in Case No. 89-374,[49] $6,612[50] in legal expenses incurred for the LG&E Energy Corporation ("Holding Company") included in test-year operating expenses has been disallowed.

Trimble County Marketing Costs

Test-year costs of $156,434[51] associated with marketing the 25 percent disallowed portion of Trimble County has been excluded, decreasing operating expenses by $156,323. The AG had proposed to remove $500,000 in Trimble County expenses, but produced no evidence to support his assumptions.

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48 Responses to Data Requests from Hearing, filed December 5, 1990, Item 9.

49 Case No. 89-374, Application of Louisville Gas and Electric Company for an Order Approving an Agreement and Plan of Exchange and to Carry Out Certain Transactions in Connection Therewith, Order dated May 25, 1990.

50 Responses to Data Requests from Hearing, filed December 5, 1990, Item 8.

51 LG&E Hearing Exhibit No. 16.

State Sales Taxes

LG&E proposed to increase its state sales tax expense by $163,000 to reflect the change in the Kentucky sales taxes rate effective July 1, 1990. Although KIUC opposed this adjustment on the grounds that LG&E had not made necessary the pro forma adjustments, The Commission believes it is reasonable to reflect this change in the state sales tax rate and has increased the state sales tax expense by $163,000.

Office Supplies and Professional Services Expenses

The AG proposed to reduce LG&E's test-year expenses for office supplies and professional services by $1,818,791. This amount represented a reduction to the levels recorded in the year prior to the test year. The AG argued that LG&E had failed to meet its burden of proof in justifying these expense increases, and advocated the Commission further decrease LG&E's test-year expenses to reflect information provided subsequent to the hearing as well as improper items of expense included by LG&E but not detected by the AG.[52]

The Commission has reviewed the account description in the Uniform System of Accounts ("USoA") for Account No. 921, Office Supplies and Expenses. This account can include charges for items such as printing, stationary, meals, traveling, and incidental expenses. However, expenses charged to any account must be evaluated on the reasonableness of the charge and how appropriate it is to include the charge for rate-making purposes. The charges

52 Brief of AG, page 1.

questioned by the AG were recorded in subaccounts of Account No. 921 which were periodically "zeroed out." Thus, these charges were not included in the test-year balance for Account No. 921. Given the information available, the Commission finds reasonable the test-year level of expense recorded in Account No. 921.

Concerning the professional services, LG&E has shown that it had already removed or reduced several of these charges in its pro forma adjustments. The Commission has specifically reviewed the invoices provided to the AG for test-year legal charges. LG&E edited many of these invoices and provided only very brief descriptions for the edited items. LG&E claimed that it could not disclose the nature of certain legal activities under the attorney-client privilege. The invoices included charges for numerous proceedings involving Trimble County and other major issues before or with the Commission. The Commission believes it is reasonable to remove the charges for the numerous Commission related proceedings since this level of activity should not be as large with the completion of Trimble County, on a going forward basis. We have also removed charges relating to the invoices where descriptions have been omitted, reducing test-year professional services expense by $294,676.

<u>Miscellaneous Expense Adjustments</u>

The AG proposed to reduce miscellaneous expenses by $314,903. Included in this proposed adjustment were contributions, economic development donations, moving expenses, and commitment fees recorded above the line, which the AG argues were not the ratepayers responsibility. The AG also argued that LG&E's

commitment fees should not be as high as in the past, since these fees had been related to the financing needs of Trimble County.

We have removed the contributions, economic development donations, and the moving expenses from the test-year expenses. The Commission traditionally has excluded above the line contributions and donations from rates; and we have not been persuaded that the moving expenses incurred in the test year represent a recurring item of expense. However, it is reasonable to include the test year level of commitment fees, because LG&E will be incurring commitment fees for its financing requirements on a recurring basis. Taken together this reduces test-year miscellaneous expenses by $151,507.

Amortization of Management Audit Fee

In Case No. 10064, the Commission approved LG&E's request to amortize the cost of the Management Audit over a 3-year period. This resulted in an annual amortization of $194,000.[53] As of the end of the test year, $226,333[54] remained to be amortized. At the present amortization rate, LG&E would have recovered the cost by the middle of 1991.

LG&E should recover the total cost of the management audit but it is not entitled to recover in excess of its cost, requiring the amortization rate to now be adjusted. The annual amortization rate for rate-making purposes should be $75,444 based on a 3-year amortization of the unamortized cost at test-year-end.

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53 Case No. 10064, Order dated July 1, 1988, page 62.

54 April 1990 Monthly Report, page 28.

Considering that the amortization has continued during the course of these proceedings, LG&E will recover its entire cost by the middle of 1992 at the $75,444 annual amortization rate. Test-year expenses have been reduced by $118,560 to reflect this adjustment.

Annualization of Year-End Customers

LG&E proposed an increase in operating expenses of $1,118,728 to reflect the increase in expenses related to annualizing the number of customers at test-year-end. This adjustment corresponded to a similar adjustment to operating revenues.

The AG proposed an increase in operating expenses of $947,065. The AG made several adjustments to the operating expenses used in the calculation of the proposal, stating that several expenses included by LG&E had not been shown to vary with the number of customers. The AG further stated that absent an LG&E study which showed that expenses increased with customer growth revenues, any adjustment based on an operating ratio is not known and measurable.[55]

The Commission specifically used the operating ratio methodology in Case No. 10064 and LG&E has followed that methodology in preparing its proposal. We have accepted LG&E's proposed adjustment.

Directors and Officers Liability Insurance

The AG proposed to reduce expenses by $245,943 to reflect the assignment of 50 percent of the cost of directors and officers liability insurance to the shareholders of LG&E. The AG argued

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55 DeWard Direct Testimony, page 33.

that the protection provided by the insurance was for both the shareholder and ratepayer. While there may be some benefits to shareholders, the main beneficiaries are the ratepayers. This insurance allows LG&E to induce highly qualified individuals to serve on its Board of Directors. We feel it is not proper or reasonable to include this adjustment.

Workers' Compensation Insurance

The AG proposed to reduce expenses by $536,187 to reflect a portion of the Workers' Compensation insurance expense recorded in the test year as capitalized. The AG stated that it was unclear whether LG&E was capitalizing any of the Workers' Compensation insurance costs, but that such an adjustment was appropriate. LG&E indicated that it was in fact capitalizing its Workers' Compensation insurance costs.[56] The Commission believes the amount included as workers' compensation insurance expense is reasonable.

Amortization of Investment Tax Credits

LG&E proposed to increase the amortization of investment tax credits ("ITC") by $1,554,000. The proposal reflected the change in depreciation rates used by LG&E and the amortization of ITCs attributable to Trimble County. The proposal reflected Trimble County ITCs for plant to be in service as of December 31, 1990.

The AG, KIUC, and Jefferson et al. opposed the inclusion of the Trimble County ITC amortization for the same reasons expressed

56 T.E., Volume IV, November 19, 1990, page 185.

concerning LG&E's proposed adjustment to depreciation expense related to Trimble County.

As discussed earlier in this Order, it is reasonable to nclude Trimble County CWIP as of test-year end and the related first year depreciation expense in rates. Likewise, it is reasonable to include the amortization on the Trimble County ITCs related to the April 30, 1990 balance of CWIP, which increases the amortization of ITCs by $1,507,000.[57]

Flowback of Unprotected Federal Excess Deferred Taxes

In Case No. 10064, the Commission ordered LG&E to amortize $4,749,500 in unprotected federal excess deferred taxes and $4,385,600 in state tax deficiencies over a 5-year period.[58] The AG claimed that LG&E did not appear to be in conformity with the Order in Case No. 10064 and proposed that the test year flowback of the unprotected federal excess deferred taxes be increased by $162,300. LG&E stated that it had changed the amount of the federal amortization due to the discovery of some errors in the amounts originally provided to the Commission in Case No. 10064, but even after the discovery of these errors, it had not informed the Commission of the change. LG&E filed information concerning the change in the amount of unprotected excess deferred taxes and its change in the amortization amount.

The Commission has reviewed the account information. It appears that both amortization amounts have been changed, not just

57 Fowler Direct Testimony, Exhibit 1, Schedule Y, line 5.

58 Case No. 10064, Order dated July 1, 1988, page 61.

the amortization for the federal excess deferred taxes. Insufficient information has been provided to justify a change in the federal amortization as ordered in Case No. 10064. The flowback of unprotected federal excess deferred taxes is restored to the level ordered in Case No. 10064 by $162,300.

State Income Tax Rate Change

LG&E proposed three adjustments to reflect the change in the Kentucky income tax rate, which became effective January 1, 1990. The adjustments were an increase in state income tax of $508,000; an increase in deferred state income tax of $42,000; and an increase in the amortization of cumulative state deferred tax of $512,000. In all three adjustments, LG&E computed the corresponding savings in federal income taxes relating to the state income tax rate change.

The methodology used to reflect the change in the state income tax rates is reasonable. But, based on the information provided, these adjustments require recalculations to reflect the level of state tax deficiency identified in Case No. 10064. The state income tax is increased by $508,000; deferred state income tax increased by $41,473; and the amortization of cumulative state deferred tax increased by $446,582.

Tax Adjustment for Other Interest Expense

LG&E proposed to increase income tax expense by $198,430 to reflect the income taxes applicable to other interest expense. In Case No. 10064, the Commission determined that LG&E could not recover other interest expense from ratepayers. Because LG&E could not recover this expense from ratepayers, LG&E claims that the ratepayers should not receive any corresponding income tax benefits. We do not agree. According to the USoA, other interest expense is recorded below the line.

It is not proper to make the proposed adjustment to income tax expense without supporting documentation which shows LG&E included other interest expense in the determination of its above-the-line income tax expense.

Interest Synchronization

LG&E proposed two adjustments in order to determine its interest synchronization. The first adjustment annualized the interest expense on debt, and the second reflected the allocation of JDIC on the computation. Traditionally, the Commission has applied the cost rates applicable to the long-term debt and short-term debt components of the capital structure in order to compute an interest adjustment. This was the approach the Commission used in Case No. 10064. The debt components utilized in this computation reflect the effects of the JDIC allocation and reductions to capital structure due to the 25 percent Trimble County disallowance and the capital costs of LG&E's new office building. Using the adjusted capital structure allowed, the Commission has computed an interest reduction of $1,193,023 which results in an increase to income taxes of $470,588.

Following the approach used in Case No. 10064, the Commission has applied the combined state and federal income tax rate of 39.445 percent to the accepted pro forma adjustments. The Commission finds that combined operating income should be increased by $6,639,060 to $130,376,955.

The adjusted net operating income is as follows:

	Electric	Gas	Total
Operating Revenues	$502,388,881	$183,296,032	$685,684,913
Operating Expenses	384,835,893	170,472,065	555,307,958
ADJUSTED NET OPERATING INCOME	$117,552,988	$ 12,823,967	$130,376,955

RATE OF RETURN

Capital Structure

LG&E proposed an adjusted end-of-test-year capital structure containing 43.13 percent long-term debt, 4.69 percent short-term debt, 8.22 percent preferred stock, and 43.96 percent common equity. Year-end, long-term debt was adjusted to reflect: (1) the retirement of $16,000,000 of 4 7/8 percent First Mortgage Bonds, Series due October 1, 1990;[59] (2) the scheduled redemption of $750,000 of 1975 Pollution Control Bonds due September 1, 1990;[60] and (3) the refinancing of $25,000,000 of Series J 1985 Pollution Control Bonds at 8.25 percent interest with 1990 bonds at 7.45 percent interest.[61] The retirement of the $16,000,000 of 4 7/8 percent First Mortgage Bonds and the redemption of the $750,000 1975 Pollution Control Bonds were reflected as adjustments to short-term debt. The refinancing of the 1985

59 Fowler Direct Testimony, Exhibit I, Schedule V.

60 Id.

61 T.E., Volume IV, November 19, 1990, page 11.

Series J Pollution Control Bonds with 1990 bonds did not affect the capital structure.

LG&E decreased year-end preferred stock and increased common equity by $1,033,459, the discount and expense associated with the preferred stock issues.[62] LG&E also decreased common equity by $9,251,593 to reflect the adjustment to retained earnings for unbilled revenues as discussed previously in this Order.[63]

The AG proposed a capital structure containing 43.11 percent long-term debt, 4.69 percent short-term debt, 8.30 percent preferred stock, and 43.90 percent common equity.[64] The difference in the AG's proposal and LG&E's proposal is that the AG proposed to exclude unamortized premiums, discounts, and expenses. The AG claims these amounts are not a part of the permanent financing of a utility. Moreover, the AG disagreed with LG&E's adjustment to place the preferred stock discount and expense in the weighted average of preferred stock.[65] The AG maintained that the preferred stock discount and expense was properly recorded in the capital stock account and should remain in the weighted average of common equity.

Premiums, discounts, and other expenses of issuing securities are an integral part of the financing of a utility and should be

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62 Fowler Direct Testimony, page 1 of 2.

63 Id., page 1.

64 Weaver Direct Testimony, Exhibit, Statement 17.

65 Id., page 30.

reflected as such in the capital structure. LG&E's adjustment to place the discount and expenses associated with preferred stock in the preferred stock structure is appropriate. The Commission finds LG&E's capital structure is as follows:

	Percent
Long-Term Debt	43.13
Short-Term Debt	4.69
Preferred Stock	8.22
Common Equity	43.96
Total Capital	100.00%

Cost of Debt and Preferred Stock

LG&E proposed a cost of long-term debt of 7.72 percent after adjustments for the refinancing of the $25,000,000 1985 First Mortgage Bonds.[66] The AG proposed a cost of long-term debt of 7.79 percent[67] but did not include an adjustment for refinancing the 1985 First Mortgage Bonds. To arrive at its cost of long-term debt, LG&E included the unamortized premium on bonds in long-term debt and adjusted interest expense by the amortization of expenses, premiums, and the loss on reacquired debt.[68] The AG did not include the unamortized premium on bonds in long-term debt and adjusted interest expense by the amortization of the expenses and

66 Calculated from Fowler Direct Testimony, Exhibit 2, page 1; and T.E., Volume IV, November 19, 1990, page 11.

67 Weaver Response to LG&E, 17.

68 Fowler Direct Testimony, Exhibit 2, page 1; and Exhibit 1, Schedule V.

premium but did not adjust interest expense by the amortization of the loss on reacquired debt.[69]

It is more appropriate to adjust long-term debt by the unamortized premium on bonds and to adjust interest expense by the amortization of the loss on reacquired debt. We find the cost of long-term debt to be 7.72 percent.

LG&E proposed the cost of short-term debt to be 8.38.[70] The AG proposed the cost of short-term debt to be 8.43.[71] The AG subsequently agreed with a cost of 8.38, and the Commission concurs.

LG&E[72] and the AG[73] both agreed that the cost of preferred stock is 8.09 percent and the Commission concurs.

Return on Equity

LG&E proposed a return on equity ("ROE") in the range of 13.0 to 13.5 percent,[74] and subsequently revised its expected cost of equity to be in the range of 13.25 to 13.75 percent.[75] The AG proposed a range of 12.0 to 12.5 percent.[76] KIUC proposed an ROE

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69 Weaver Direct Testimony, Exhibit, Statement 15.

70 Fowler Direct Testimony, Exhibit 2, page 1.

71 Weaver Direct Testimony, Exhibit Statement 16, page 2.

72 Fowler Direct Testimony, Exhibit 2, page 1.

73 Weaver Direct Testimony, Exhibit, Statement 17.

74 Olson Direct Testimony, page 36.

75 Olson Supplemental Testimony, page 18.

76 Weaver Direct Testimony, page 28.

of 11.7 percent.[77] Jefferson et al. proposed an ROE in the range of 11.0 to 11.5 percent.[78]

To determine the ROE, LG&E used a discounted cash flow ("DCF") analysis. In addition, LG&E utilized an interest premium calculation and DCF study of eight other electric utilities as a check on the results of its DCF analysis. LG&E adjusted the results for financing costs and to show additional margin.

In its DCF analysis, LG&E used a dividend yield of 7.57 percent[79] based on a projected dividend rate of $2.84 and a 6-month high/low stock price average during the period May 1 - October 26, 1990.[80] LG&E relied on three methods of analysis to determine its estimated growth rate: 1) a study of past and current trends in dividends, earnings and book value; 2) retention or internal growth; and 3) estimates of expected growth available from security analysts.[81] Based on its analysis, LG&E opined that investors expect growth of 4.75 to 5.25 percent.[82] Overall, LG&E's DCF analysis produced a return requirement of 12.32 to 12.82 percent.[83]

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77 Baudino Direct Testimony, page 26.

78 Kinloch Direct Testimony, page 22.

79 Olson Supplemental Testimony, page 17.

80 Id.

81 Olson Direct Testimony, page 23.

82 Id., page 29.

83 Olson Supplemental Testimony, page 17.

Using an interest premium approach as a first check on its DCF analysis, LG&E concluded its cost of common equity to be 14.5 percent. The risk premium of investors was estimated to be 4.75 percent. This was added to the current yield to maturity on Double A bonds of 9.8 percent.[84] As a second check of its results, LG&E performed a DCF study of eight selected utilities. The results indicated an investor requirement of 12.48 to 12.98 percent.[85]

LG&E determined that the results of its DCF analysis were not in fact the returns required by investors. LG&E applied an 8 percent premium to its DCF results to compensate for financing cost and market pressure.[86] LG&E concluded that its required ROE should be 13.25 to 13.75 percent.[87]

To perform a DCF analysis, the AG selected 5 companies he considered to be of comparable risk to LG&E. The companies considered were combination gas and electric companies reported in Value Line with characteristics similar to LG&E in capital structure ratios, total assets, fuel mix, electric vs. gas revenue distribution, betas, stock ratings, and bond ratings.[88] According to the AG's analysis, LG&E has a slightly greater amount of risk from its capital structure and operating leverage than the

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84 Olson Direct Testimony, pages 32-33.

85 Olson Supplemental Testimony, page 18.

86 Olson Direct Testimony, page 36.

87 Olson Supplemental Testimony, page 18.

88 Weaver Direct Testimony, page 6.

comparison group but this risk is offset by the greater risk of the comparison group from acid rain legislation.[89]

The AG used four methods of calculating growth for its DCF analysis. The methods used were: 1) compound growth rate in dividends per share; 2) compound growth rate in earnings per share; 3) compound growth rate in book value per share; and 4) earnings retention ratio multiplied by ROE. Based on these calculations, the AG's recommended growth rate was 4.0 to 4.5 percent.[90]

The AG calculated a dividend yield from June 29, 1990 through September 7, 1990 of 7.44 percent for LG&E and 7.75 percent for the comparison group.[91] The AG employed these yields in its DCF analysis to reflect greater uncertainty caused by the Middle East situation.[92] The results of the AG's DCF analysis yielded an ROE for LG&E of 11.74 to 12.27 percent and 12.06 to 12.60 percent for the comparable companies.[93] Based on these results the AG determined LG&E's required ROE to be within a range of 12.0 to 12.5 percent.[94]

KIUC performed a DCF analysis using the same eight companies that LG&E used in its DCF study of comparable companies and a risk

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89 Id., page 18.

90 Id., page 25.

91 Id., page 26.

92 Id.

93 Id., page 27.

94 Id., page 28.

premium analysis. KIUC calculated a 6-month average dividend yield during the period from February through July 1990 of 7.22 percent for the comparison group[95] and 7.28 percent for LG&E.[96] Averaging the Institutional Brokers Estimate System ("IBES") earnings growth project, Value Line compound dividend growth rate from 1990 to 1994, and Value Line compound earnings per share growth rate from 1990 to 1994 resulted in an expected growth rate of 4.28 percent for the comparison group[97] and 3.46 percent for LG&E.[98] To complete the DCF equations, KIUC applied one-half the growth rate to the historical dividend yields to arrive at a ROE for the comparison group of 11.65 percent[99] and 10.87 percent for LG&E.[100] KIUC opined that its DCF cost of equity for LG&E was too conservative given the DCF cost of equity for the comparison group.[101] KIUC found the comparison group results were not understated based on a sustainable growth calculation it performed as a check.[102]

In addition, KIUC performed a risk premium analysis as a supplementary check on its DCF analysis. Adding a risk premium of

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95 Baudino Direct Testimony, page 11.

96 Id., page 18.

97 Id., page 13.

98 Id., page 19.

99 Id., page 16.

100 Id., page 20.

101 Id., page 21.

102 Id., page 25.

2.11 percent to the 9.65 percent average yield of LG&E's first mortgage bonds for February and July 1990 resulted in a cost of equity for LG&E of 11.76 percent.[103] In its final analysis, KIUC averaged the results of its DCF for comparison companies and its risk premium analysis to arrive at its estimate of 11.7 percent as a fair rate of return for LG&E.[104]

Jefferson et al. opined that an ROE between 11.0 and 11.5 percent would offer LG&E's shareholders a fair return on their investment.[105] This was based on a review of returns recently granted by other Commissions as published in Public Utilities Fortnightly and KIUC's assessment of LG&E's level of risk as compared to the named utilities.

The 8 percent premium proposed by LG&E to adjust for flotation cost and market pressure would overstate LG&E's cost of capital. LG&E is rated a solid Aa/AA by Moody's and Standard and Poor and thus can be considered less risky than the average utility investment. Pressure to finance ongoing construction is declining and by its own admission, LG&E is in a one-of-a-kind position to perform under the Clean Air Act. However, the current state of the economy is timorous. The Commission, having considered all of the evidence, including current economic conditions, finds that an ROE of 12.25 to 12.75 percent is fair, just, and reasonable. An ROE in this range would allow LG&E to

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103 Id., page 24.

104 Id., page 26.

105 Kinloch Direct Testimony, page 22.

attract capital at a reasonable cost and maintain its financial integrity to ensure continued service and provide for necessary expansion to meet future requirements, and also result in the lowest possible cost to ratepayers. A return of 12.5 percent will best meet the above objectives.

Rate of Return Summary

Applying the rates of 7.79 percent for debt, 8.09 percent for preferred stock, and 12.50 percent for common equity to the capital structure produces an overall cost of capital of 9.89 percent, which we find to be fair, just, and reasonable. This cost of capital produces a rate of return on LG&E's net original cost rate base of 9.52 percent which the Commission finds is fair, just, and reasonable.

REVENUE REQUIREMENTS

The Commission has determined that LG&E needs additional annual operating income of $3,618,915 to produce a rate of return of 12.50 percent on common equity based on the adjusted historical test year. After the provision for state and federal taxes, there is an overall revenue deficiency of $5,976,245 the amount of additional revenue granted. The net operating income necessary to allow LG&E the opportunity to pay its operating expenses and fixed costs and have a reasonable amount for equity growth is $133,995,870. A breakdown between electric and gas operations of the required operating income and the increase in revenue allowed is as follows:

	Electric	Gas	Total
Net Operating Income Found Reasonable	$120,854,300	$ 13,141,570	$133,995,870
Adjusted Net Operating Income	117,552,988	12,823,967	130,376,955
Net Operating Income Deficiency	3,301,312	317,603	3,618,915
Gross Up Revenue Factor for Taxes [1.00-.39445]	.60555	.60555	.60555
Additional Revenue Required	5,451,758	524,487	5,976,245

The additional revenue granted will provide a rate of return on the net original cost rate base of 9.52 percent and an overall return on total capitalization of 9.89 percent.

The rates and charges in Appendix A are designed to produce gross operating revenues, based on the adjusted test year, of $691,661,158. These operating revenues include $507,840,639 in electric revenues and $183,820,519 in gas revenues. The gas operating revenues reflect the most recent gas cost adjustment approved in Case No. 10064-J.

PRICING AND TARIFF ISSUES

Electric Cost-of-Service Study

LG&E presented a fully embedded time-differentiated electric cost-of-service study for the purpose of allocating costs among the classes of service on the basis of cost incurrence. The study used a base-intermediate-peak ("BIP") method to allocate production and transmission costs to costing periods and to customer classes. The BIP methodology, which was approved by the

Commission in Case Nos. 8616,[106] 8924,[107] and 10064,[108] was described by LG&E in the following manner:

> The cost assignments to the base period were established on the basis of the relationship of the minimum demand to the maximum demand. This recognized that some level of capacity is always present to meet customer needs. Base costs were allocated among classes based on their individual contribution to the average system demand. Intermediate peak costs were determined on the basis of the maximum winter peak demand over and above the average demand. Such costs were then assigned to the winter peak period based on the relationship of the number of hours in that period to the total hours in both the winter and summer peak periods. Costs were then allocated among customer classes according to each class's contribution to the winter peak demand. The remaining production and transmission costs were assigned to the summer peak period and allocated on the basis of each class's contribution to the summer peak demand.[109]

All other electric cost-of-service methodologies used by LG&E are essentially the same as those approved by the Commission in LG&E's last two rate cases.

KIUC recommended that demand-related costs be allocated to customer classes using the Probability of Peak ("POP") method. This method represents a type of coincident peak allocation in which each class's contribution to the utility's twelve monthly

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106 Case No. 8616, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company, Order dated March 2, 1983, pages 33-34.

107 Case No. 8924, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company, Order dated May 16, 1984, pages 37-38.

108 Case No. 10064, Order dated July 1, 1988, pages 81-84.

109 Walker Direct Testimony, pages 11-12.

system peaks are weighted by a given month's relative probability of attaining the annual system peak.[110] KIUC concluded that LG&E's electric cost-of-service study could not be used because it does not properly assign costs to customer classes. KIUC argued that the BIP method is deficient because it allocates a portion of demand-related production and transmission costs on an energy basis and assigns too much of the remaining weight to LG&E's winter system peak.[111]

According to LG&E, the POP method proposed by KIUC results in an assignment of nearly 90 percent of the weight of production and transmission costs to the coincident peaks that occurred during the summer months of July and August, with over 97 percent assigned to the June-September period.[112] LG&E further contended that the POP method leads directly to a class allocation in which the lighting schedules, Rates PSL, OL, and SLE, are assigned no portion of the production and transmission demand-related costs even though customers served under those rate schedules have access to power whenever they desire it.[113] KIUC even stated that "demand-related fixed costs are incurred due to the utility's obligation to provide service when requested".[114] LG&E stated that the BIP method is superior to the POP method in reflecting

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110 Kalcic Direct Testimony, page 11.

111 Id., page 10.

112 Brief of LG&E, page 122.

113 Id., pages 122-123.

114 Kalcic Direct Testimony, page 8.

the realities of cost incurrence on its system and should be used in the analysis of cost of service.[115]

The Commission continues to believe that the BIP method is appropriate as a means of allocating production and transmission costs to the customer classes. The BIP method recognizes that LG&E's embedded production and transmission costs were incurred to meet all customer demand, not just that which is coincident with system peak. KIUC's proposed POP method places too much weight on coincident peak demand. If any customer has access to electricity whenever it is demanded, that customer should bear the responsibility of some portion of demand-related costs.

LG&E's electric cost-of-service study is acceptable and should be used as a starting point for electric rate design.

Gas Cost-of-Service Study

LG&E filed a fully embedded gas cost-of-service study to allocate costs among the classes of service on the basis of cost incurrence and to determine the relative contribution that each rate class makes to overall return on net rate base. Pursuant to a Commission directive in Case No. 10064, LG&E disaggregated its customers in this cost-of-service study into the following classes: Residential Rate G-1, Commercial Rate G-1, Industrial Rate G-1, Commercial Rate G-6, Industrial Rate G-6, and Fort Knox

115 Brief of LG&E, page 123.

Special Contract.[116] For purposes of this study, LG&E combined the sole customer served under Uncommitted Gas Service Rate G-7 with Industrial Rate G-6.[117] LG&E stated, however, that the provision of service to Rate G-7 customers is markedly different from that provided to Rate G-6 customers.[118]

LG&E did not disaggregate the customer classes further into transportation and sales categories. LG&E contended that since all transportation customers may purchase any portion of their annual gas requirements under the applicable sales rate schedules, and since all but one of its transportation customers purchased sales gas during the test year, a disaggregation of transportation customers would be unnecessary.[119]

LG&E's cost-of-service model consists of the following steps: (1) costs are assigned to the major functional groups (underground storage, transmission, distribution general, distribution structures, distribution mains, distribution services, distribution meters, customer accounting, and customer services); (2) functionalized costs are then classified into demand, commodity, and customer components; and then (3) classified costs

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116 In the Commission's Order in Case No. 10064 dated July 1, 1988, at page 81, LG&E was directed to address, in its next rate case, an assertion made by KIUC that LG&E's cost-of-service study did not fully disaggregate its various classes of customers.

117 Walker Exhibit 2, page 1.

118 Id.

119 Brief of LG&E, page 125.

are allocated to LG&E's rate classes.[120] LG&E's gas cost-of-service methodologies are consistent with those approved by the Commission in Case No. 10064.

The AG criticized several allocation methodologies used by LG&E and suggested alternative allocation factors. The AG, however, did not conduct a cost-of-service study incorporating his recommended allocation factors.[121]

The AG proposed to allocate exactly half of the demand-related underground storage and transmission costs on the basis of extreme winter seasonal requirements and design-day demand, the same factor LG&E used to allocate all of the storage and transmission demand costs in its cost-of-service study. The AG recommended that the other half be allocated on the basis of total class usage.[122]

Similarly, the AG proposed to allocate half of the commodity-related storage and transmission costs on the basis of design-day demand, with the other half allocated on the basis of total class usage.[123]

The AG proposed to allocate one-third of the costs associated with distribution structures and equipment on the basis of class

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[120] Walker Exhibit 2, page 2.

[121] T.E., Volume VII, November 26, 1990, pages 12-13.

[122] Sheehan Direct Testimony, pages 10-11.

[123] Id., page 12.

design-day demand, with the remaining two-thirds allocated on the basis of total class usage.[124]

Finally, the AG recommended substituting a usage-based allocator or a different customer-based allocator for LG&E's customer-based allocator for the allocation of costs associated with customer accounting and customer service expenses.[125]

The AG has provided no evidence to support the reasonableness of his cost-of-service allocation methodologies. In fact, when asked to explain the basis for one of his proposed methodologies, the AG's witness vaguely characterized it as "rule of thumb" and "reasonable at a first glance."[126] He also indicated that some of his other recommended methodologies could be similarly described.[127] Explanations such as that hardly support the reasonableness of the AG's recommended allocation methodologies. Furthermore, the AG is unable to quantify the effect his recommendations will have on class rates of return.[128] Considering the lack of support for the AG's recommendations, the Commission is unable to adopt them as alternatives to LG&E's allocation methodologies.

KIUC criticized LG&E's gas cost-of-service study because it does not establish separate classes for transportation customers

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124 Id., page 14.

125 Id., pages 16-19.

126 T.E., Volume VII, November 26, 1990, page 54.

127 Id., pages 55-56.

128 Id., page 58.

and sales customers. It contended this absence renders the study useless with respect to the design of cost-based transportation rates.[129]

KIUC asserted that the cost incurrence characteristics of transportation service are significantly different from those of sales service based on an analysis of load factor and customer size data for G-1 and G-6 sales and transportation customers. KIUC contended that the larger load factors and customer sizes of transportation customers indicate "radically different" cost incurrence,[130] and asserted that the gas cost-of-service study should disaggregate transportation customers from sales customers.

KIUC presented an alternative gas cost-of-service study in which commercial and industrial G-1 and G-6 customers are disaggregated further into separate sales classes and transportation classes. With respect to the allocation methodologies utilized to assign costs to these classes, KIUC adopts the same methodologies employed by LG&E in its study.[131]

KIUC's reliance on load factor and customer size data to prove a significant difference in cost incurrence characteristics is not sufficient to convince the Commission that such an extreme cost differential exists. LG&E has clearly shown that all but one of its transportation customers also relied upon and used sales

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129 Eisdorfer Direct Testimony, page 3.

130 Id., page 6.

131 Id., pages 8-9.

service to some degree during the test year.[132] This ability of transportation customers to rely upon and use sales services is a privilege not adequately considered by KIUC in its analysis. Nor does KIUC's analysis acknowledge that LG&E's distribution system is constructed in a manner so as to provide sales service to these customers whenever such service is demanded. These factors must be considered when attempting to determine differences in cost incurrence characteristics between customers. KIUC's evidence lacks such consideration and analysis.

LG&E has stated that certain differences exist in the provision of service to Rate G-6 customers and Rate G-7 customers.[133] Yet LG&E combined its one G-7 customer with the Rate G-6 class for purposes of its cost-of-service study. LG&E should, in subsequent cost-of-service studies, fully disaggregate Rate G-7 customers from those served under Rate G-6.

LG&E's gas cost-of-service study is acceptable and should be used as a starting point for gas rate design.

Revenue Allocation

Based on the results of its electric cost-of-service study, LG&E proposed to allocate increases to all customer classes ranging from 7.4 percent for the residential and street and outdoor lighting classes to 5.9 percent for the general service and special contract classes. LG&E indicated that its allocation

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132 T.E., Volume VII, November 26, 1990, page 93.

133 Walker Exhibit 2, page 1.

methodology was designed to achieve a better balance between class rates of return while maintaining rate stability and continuity.

LG&E proposed to allocate the full amount of the gas increase to the General Service ("G-1") rate. This proposal was based on the results of LG&E's cost-of-service study which showed that the rate of return for the residential class, which is served under the G-1 rate schedule, was significantly below rates of return for other classes. LG&E proposed no increases for its interruptible rate classes, G-6 and G-7, or for the Fort Knox special contract.

KIUC, based on its electric cost-of-service study, proposed allocations ranging from a 5.6 percent decrease for Carbon Graphite, a contract customer, to a 13.1 percent increase for the residential class. On gas, KIUC proposed decreases for G-1 and G-6 industrial transportation customers. The amount of the decreases were dependent on the amount by which the Commission reduced LG&E's requested gas increase. None of the other intervenors offered specific allocation recommendations.

LG&E's allocation proposals are supported by its cost-of-service analyses and are consistent with the Commission's goals of gradualism and rate continuity. Having accepted LG&E's cost-of-service studies, the Commission finds that the resulting allocation proposals produce an equitable distribution of the revenue increases granted and shall be reflected in the rate design approved herein.

Electric Rate Design

LG&E proposed generally uniform increases in customer, demand and energy charges with some changes in its existing tariffs and rate design. The changes included: switching from a minimum bill to a customer charge for its water heating, space heating, and traffic lighting rates; changes in demand ratchets that would impact the billing demands for large commercial and industrial customers; seasonal billing demands for industrial customers served under rate LP; and making time-of-day rates available for smaller sized industrial and commercial customers. In addition, LG&E proposed changes in Public Street Lighting ("PSL") and Outdoor Lighting ("OL") rates to equalize the prices, by lumens of output, between mercury vapor and high pressure sodium lights. LG&E also proposed to revise its interruptible service rider by increasing the monthly demand credit to $3.30 per KW.

Louisville opposed LG&E's proposed changes to the PSL rates contending that the marginal cost pricing methodology employed by LG&E unfairly impacted Louisville with its older, more fully depreciated street lighting system. Louisville recommended an alternative rate schedule based on embedded costs and proposed to be separated from LG&E's other PSL customers either through a special contract or by establishing a separate tariff classification.

Jefferson et al. proposed changing LG&E's residential rate structure from a flat summer rate and declining block winter rate to inverted block rates in both summer and winter. Jefferson et al. opines that LG&E was deficient in its response to the Commission's directive in Case No. 10064 that LG&E address the issues of inverted block rates in the summer and declining block winter rates.[134] Jefferson et al., based on its analysis of LG&E's cost-of-service study, contends that LG&E's temperature-sensitive loads (summer air conditioning and winter heating) have a major impact on LG&E's costs and the allocation of those costs. Jefferson et al. proposes that LG&E's cost recovery, through rates, should also reflect the impact of these temperature-sensitive loads.

Jefferson et al.'s proposal would reduce LG&E's energy rate for the first 600 KWH to 5.435¢ on a year-round basis compared to LG&E's existing rates of 6.402¢ and 5.833¢ in the summer and winter, respectively. Jefferson et al. would increase the rate for sales over 600 KWH to 8.189¢ in the summer and 6.227¢ in the winter compared to the existing rates of 6.402¢ in summer, and 4.528¢ in winter. These rates were based on Jefferson et al.'s analysis of LG&E's temperature-sensitive costs using the base, winter, and summer demands from LG&E's cost-of-service study and using one month of the test year, October 1989, as the measure of LG&E's non-temperature-sensitive load.

LG&E argues that while unit costs are higher in the summer than in the winter there is no load research evidence to support Jefferson et al.'s proposal. LG&E contends that its existing rate design reflects the differences in summer and winter unit costs and, through the declining block winter rate, attempts to reduce the average unit cost by spreading fixed costs over greater sales volumes. LG&E further contends that deficient recovery of

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[134] Case No. 10064, Order dated August 10, 1988.

customer costs through the customer charge requires these costs to be recovered in the initial usage steps to prevent large users from paying a disproportionate share of these costs. Finally, LG&E argues that its declining block winter rates should be continued to promote off-peak loads and that customer acceptance and revenue stability must be included in any consideration of rate design changes.

The Commission finds most of LG&E's rate design changes proper and reasonable. On PSL and OL rates, the Commission finds LG&E's alternative proposal proper and reasonable. The alternative proposal, to which Louisville agreed, results in approximately equal percentage increases for existing lights, be they mercury vapor or high pressure sodium.[135] For mercury vapor lights installed in the future, the rates would be higher, based on LG&E's marginal costs, while for new high pressure sodium lights the rates would equal the rates for existing lights.

The Commission is not persuaded that LG&E's residential rates should be redesigned in the precise manner proposed by Jefferson et al.; however, we find that a change resulting in an inverted block summer rate is appropriate. The Commission finds there to be substantial support for Jefferson et al.'s proposed inverted summer rates. LG&E is a strong summer peaker with a significant amount of capacity installed to meet its residential air conditioning load. As LG&E pointed out, its unit costs are higher in the summer than in the winter largely due to the relatively

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135 T.E., Volume V, November 20, 1990, page 111.

small increment of energy sales associated with the capacity required to meet its air conditioning demands.[136] These summer load characteristics indicate that LG&E's temperature- sensitive load is a major contributor to its generating and transmission costs and point out the need for long-term reductions in peak demand that can translate into lower future costs.

The Commission considers reduced peak demand, improved system load factor, and lower unit costs to be common goals that are in the best interest of all parties. To that extent, we are not persuaded that LG&E's winter rate design should be modified. Increased off-peak loads can produce many of the same benefits as reduced on-peak loads.

In recognition of concerns about cost recovery, customer acceptance, and revenue stability we have chosen a moderate approach to the implementation of an inverted block summer rate. The summer energy rate will remain unchanged for the first 600 KWH usage; the summer energy charge increase will be assigned in total to the usage in excess of 600 KWH. Given the relatively small number of KWH sold in relation to the capacity needed to meet air conditioning demands, this increase should not affect LG&E's revenue stability.

Cable Television Attachment Charges ("CATV")

LG&E proposed increasing its charges for CATV pole attachments by approximately 35 percent. LG&E's calculation of these charges was based on the formula established by the

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[136] Walker Direct Testimony, page 22.

Commission in Administrative Case No. 251[137] with an added cost component for tree trimming expense.

KCTA opposed the increase contending that LG&E's allocation of the entire amount of tree trimming expense included in Account 593.004, Tree Trimming of Electric Distribution Routes, to poles was improper. KCTA opined that the vast majority of the expense goes not to clear space for poles, but to clear space for LG&E's overhead conductions and services and for clearing a path for the span of lines between the poles. KCTA proposed allocating the tree trimming expense based on LG&E's investment in poles compared to its combined investment in poles, overhead conductors, and services thereby increasing LG&E's pole attachment charges by approximately 14 percent. KCTA also proposed that the approved pole attachment rates be calculated using the overall rate of return approved by the Commission in this case.

LG&E argued that since the cable television lines are strung between the poles, those lines are benefited by the tree trimming that clears the path between the poles. LG&E also pointed out that pole attachment charges are assessed through a formula, based on the percentage of usable space, that uses an allocation factor to derive the appropriate charge.

The clearing of the span between the poles inures to the benefit of all parties whose lines cover the span, be they

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137 Administrative Case No. 251, The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments, Order dated August 12, 1982.

electric, telephone, or CATV. As such, the full amount of the tree trimming expense is properly includible in calculating the O & M component of the annual carrying cost used to derive the pole attachment charge. Applying the annual carrying charge to an allocated fix cost component, derived using the percentage of usable space, effectively allocates the O&M component of the annual carrying charge. The result is a pole attachment charge which reflects an equitable allocation and recovery of LG&E's costs. The pole attachment charges proposed by LG&E, modified to reflect the overall rate of return of 9.89 percent, are granted.

Gas Rate Design

For the G-1 class, LG&E proposed to increase customer charges by approximately 24 percent and commodity charges by approximately 1.8 percent. This proposal reflected the results of LG&E's cost-of-service study and the need to improve the residential rate of return. LG&E maintains that since the average residential usage is significantly smaller than the usage of the commercial and industrial classes served under Rate G-1, the customer charge, rather than the commodity charge, is the appropriate rate to increase for the purpose of achieving a better balance between class rates of return.

The AG opposed the proposed increase in the residential customer charge from $4.35 to $5.40, taking issue with several of LG&E's cost allocators used in arriving at its customer costs. The AG argued that the proposal acted as a disincentive for conservation by placing the bulk of the increase on the fixed portion of the customer's bill. The AG calculated a customer cost of $3.75 and opined that the existing charge of $4.35 was more than adequate.

Jefferson et al. maintained that the customer charge increase would overly burden the small, lower income customers in the residential class. Jefferson et al. argued that LG&E's stated intention of increasing the residential class rate of return was improper because the lower risk associated with serving the residential class should translate into a lower rate of return. Jefferson et al. proposed a rate design that included increasing the customer charge by 2.4 percent, the amount of the overall requested G-1 rate increase.

Although LG&E's proposal for increasing the customer charge may be logical and reasonable, the amount of the increase is not consistent with the Commission's goals of rate continuity and gradualism. While there is a lower risk associated with serving the residential class some increase in the residential class rate of return is warranted. As a means of achieving this increase in return, it is proper to assign the majority of the revenue increase to the customer charge. Given the magnitude of the increase, the Commission will assign the customer charge an increase of approximately 2.5 times the overall G-1 percentage increase, exclusive of gas cost revenues. The revenue increase of .9 percent results in a customer charge increase of 2.3 percent, producing a residential customer charge of $4.45. The non-residential customer charge will increase by a similar percentage, from $8.70 to $8.90.

Late Payment Charges

The AG proposed that LG&E's late payment charge be abolished. The AG argued that the charge was not cost-justified and that LG&E had not shown that the charge served as an incentive for prompt payment.

Jefferson et al. proposed a plan to change the way LG&E credits partial payments as a means of reducing the number of late payment charges imposed on customers with past due account balances. At present, LG&E credits partial payments first to the customer's past due balance, then to the current month's bill. Jefferson et al. pointed out that this procedure results in a customer being assessed a late payment charge when it makes a partial payment sufficient to cover its current month's bill because, after the payment is credited to the customer's past due balance, the remainder is not enough to cover the current month's balance. Jefferson et al. argued that this change would encourage customers to make timely payments on their current balances knowing there would be no late payment penalty assessed in a subsequent month when the current month's bill was paid in full.

LG&E argued that the existing procedure serves as an incentive for customers to pay off their past due balances and that the late payment charge functions as an incentive to encourage timely payments. LG&E also argued that if the late payment charge were abolished, the loss of the associated revenues would have to be incorporated into the rates charged all customers.

LG&E's late payment charge has been in its tariffs for many years. The AG performed no analysis on the effectiveness of this charge as an incentive for timely payment of bills. The Commission finds, as it did in LG&E's last rate case,[138] that the late payment charge serves as an incentive and has an important role in LG&E's bill collection strategy.

The arguments of Jefferson et al. to change the way LG&E credits partial payments are persuasive. The Commission finds Jefferson et al.'s plan to be a means of minimizing the instances of recurring late payment charges for customers experiencing payment problems. When a customer can pay the current month's bill plus make a payment toward its past due balance, the customer should not be assessed still another late payment charge.

The Commission is mindful of LG&E's concerns that implementation of Jefferson et al.'s proposal could result in customer laxity toward the payment of past due balances. In considering those concerns, the Commission notes that LG&E retains the ability to terminate service if payment is not eventually made. However, to minimize the need for such actions, the Commission will make the following modification to Jefferson et al.'s proposal to create an incentive for customers to reduce their past due balances: When a customer with a past due balance makes a partial payment sufficient to pay the bill for the current month's usage, plus pay $10.00 or 5 percent of the outstanding past due balance, whichever is greater, LG&E shall credit the

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138 Case No. 10064, Order dated April 20, 1989.

payment to the current month's bill first, then credit the remainder to the past due balance. Crediting the current month's bill first will eliminate the assessment of a late payment penalty on the current month's bill, and requiring some payment toward the past due balance as a prerequisite for such crediting provides the customer an incentive to reduce the past due balance. The Commission finds that such a plan is a reasonable modification to LG&E's current collection procedures and should be approved. LG&E is hereby directed to implement this change in the way it credits partial payments concurrent with the effective date of this Order.

Transportation Service/Standby Service

KIUC recommended that LG&E's tariffs be modified to make standby service optional for all gas transportation customers. KIUC claimed that, under LG&E's existing tariffs, transportation service exclusive of standby service was limited to Rate T transportation customers taking sales service under Rate G-7, Uncommitted Gas Service. KIUC argued that this prerequisite effectively forced transportation customers to take standby service under Rate TS which is available to customers served under sales rates G-1 and G-6.

LG&E contends that Rate T is available to G-1 and G-6 sales customers but that a customer served on Rate T will have no standby or back-up protection for its Rate T volumes other than the G-7 rate for uncommitted gas service.[139] LG&E maintains that

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[139] T.E., Volume II, November 9, 1990, pages 115-116.

KIUC has misinterpreted the Rate T tariff regarding the precondition of being a G-7 sales customer.

The Commission can understand KIUC's reading and interpretation of the Rate T tariff language which states "available to commercial and industrial customers serviced under Rate G-7. . ." to mean that being a G-7 sales customer is required in order to receive transportation service under Rate T. We also understand LG&E's explanation that the intent of the tariff is to indicate that for customers taking transportation service under Rate T, LG&E will not be obligated to provide standby quantities other than the uncommitted gas available under Rate G-7. Some modification of the tariff language regarding the availability of Rate T is needed to eliminate this misunderstanding. The above-quoted reference to Rate G-7 should be eliminated and a description of the limited protection of uncommitted gas offered under Rate G-7 should be added. LG&E should so modify this tariff when it files its revised tariffs setting forth the rates approved in this proceeding.

Pipeline Demand Charges

KIUC proposed that the pipeline supplier's demand component of LG&E's G-6 rates be reduced. KIUC opined that G-6 customers, being subject to interruption during the winter, have a lower quality of service than G-1 customers, and that this lower quality of service should be reflected in lower rates. We do not agree.

Rate G-6 customers are subject to interruption for only 90 days during the winter season. LG&E's pipeline demand costs are lower due both to its storage capabilities and the interruptibility of rate G-6 customers.

KIUC presented no evidence or analysis to support its argument. G-6 customers receive firm service for all but 90 days of the year. The quality of their service is not significantly different than that of G-1 customers. In addition, LG&E's lower pipeline demand costs are flowed through to all customers, both firm and interruptible, regardless of whether the lower cost results from LG&E's storage capabilities or the interruptibility of its G-6 customers.

Fuel Adjustment Clause

KIUC proposed that LG&E's electric fuel costs be removed from the base energy charges contained in LG&E's tariffs. KIUC argued that fuel costs should be recovered solely through the operation of the fuel clause and should be shown separately from non-fuel costs.

We disagree. The fuel clause regulation, 807 KAR 5:056, requires the establishment of a level of fuel costs in base rates such that, at the time of setting the base rates, the fuel adjustment factor will be equal to zero.

Tariff Changes

The Commission has addressed a number of specific rate design and tariff changes proposed either by LG&E or the intervenors. Several of the changes proposed by LG&E include text additions, deletions, or revisions which were not challenged by any party. The Commission has reviewed all such changes and finds they should be approved. Due to their voluminous nature, these text changes are not included in the Appendix.

OTHER ISSUES

Management Audit

While the Commission is encouraged by the organizational efficiencies and expected savings described by LG&E concerning its work force, the Commission remains concerned that all aspects supporting LG&E's organization structure are not in place. LG&E has indicated that the restructuring or downsizing dealt primarily with management employees.[140] LG&E has apparently not completed its evaluation of human resources needs and systems, but has begun a process of continuous improvement recognizing that the changes will take time to implement properly.[141] LG&E further indicated that this was the first year that organizational development had been seriously included in LG&E's five year plan and that a manpower planning process was currently being designed for implementation in January 1991.[142]

The Commission fully expects LG&E to pursue in a prompt and expeditious manner the organizational and operational efficiencies described during this proceeding. LG&E's efforts in this area will be monitored by the Commission through the normal management audit follow-up process.

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140 T.E., Volume II, November 8, 1990, page 126.

141 Wood Direct Testimony, page 4.

142 T.E., Volume II, November 8, 1990, page 200.

LG&E also discussed the 4KV conversion program stating that the program was scheduled for completion in approximately the year 2004.[143] Because of the savings estimated by LG&E in an internal study, the Commission encourages LG&E to continue its dialogue with the Management Audit Staff regarding the optimal conversion schedule during the management audit follow-up process.

Energy Conservation Programs

Paddlewheel proposed that the Commission establish a task force to design and administer capacity-avoiding conservation programs for LG&E. Paddlewheel suggested that the task force include LG&E Staff, Commission Staff, traditional intervenors, and conservation experts located in LG&E's service territory. Paddlewheel opined that the Commission, or specifically Commission regulations, have impeded the development of conservation programs in Kentucky. Paddlewheel recommended that the Commission provide utilities incentives for conservation by allowing conservation expenditures to be treated as rate base investments on which a utility can earn a return rather than as operating expenses for which it will be reimbursed. Subsequent to the hearing, Paddlewheel filed a motion requesting the Commission enter an Order formally establishing a task force.

LG&E indicated it was interested in expanding its energy conservation programs and would agree with Paddlewheel that rate base treatment of conservation expenditures would serve as an incentive to encourage utilities to design and implement new

143 T.E., Volume III, November 9, 1990, page 199.

conservation programs. LG&E also indicated it would like to participate in a collaborative process (task force) to develop new conservation programs.

The Commission endorses the proposal to establish a task force for the purpose of designing and overseeing new conservation programs at LG&E. The Commission is also agreeable to allowing utilities to earn a return on conservation expenditures as an incentive to encourage development of such programs.

The Commission notes that neither at present nor in the past has it had a regulation or policy that acted as a deterrent to utilities making conservation expenditures. In fact, over 9 years ago the Commission stated, "We have in mind an aggressive conservation program, which sees expenditures on conservation not as an unfortunate necessity or misguided effort, but rather as an <u>investment</u>, and as such an alternative to investment in added generating capacity."[144] (emphasis in original) We encourage LG&E and interested intervenors to begin discussion on these matters for the purpose of establishing general goals and establishing a task force, including Commission Staff, to develop new conservation programs for LG&E. However, nothing in Paddlewheel's motion convinces the Commission that there is a present need to order the establishment of such a task force.

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[144] Case No. 8177, General Adjustment of Electric Rates of Kentucky Utilities Company, Order dated September 11, 1981.

Cane Run Unit No. 3 ("Cane Run No. 3")

KIUC and Jefferson et al. recommend that LG&E be prohibited from retiring Cane Run No. 3 until an independent evaluation of the unit could be performed to determine its reliability and possible renovation to extend its active service life. Jefferson et al. also proposed that the Commission establish a process requiring a certificate of decommissioning be obtained by a utility prior to retiring a generating unit. After the hearing in this case, Paddlewheel moved to establish a case in order to investigate the status of Cane Run No. 3.

LG&E agreed that it would not retire, or take any measure to retire, Cane Run No. 3 until an independent evaluation was performed on the unit, either by someone chosen by the Commission or selected by agreement of the company and the intervenors.[145] LG&E did, however, have some questions as to the cost and payment for the evaluation and the time frame within which the study might be performed.

The Commission endorses the proposal agreed to by LG&E that an independent party be selected to perform an evaluation of Cane Run No. 3 prior to its retirement from service. LG&E should begin the process of selecting an independent expert to perform the evaluation. In the event that LG&E and the intervenors are unable to agree on an expert, the Commission will facilitate the selection. The cost, as with any outside service, should be borne by LG&E, with rate recovery at some future point. The Commission

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145 T.E., Volume I, November 7, 1990, page 167.

would expect the evaluation to be completed prior to the time of LG&E's initial filing under the integrated resource planning regulation in late 1991. The Commission finds no need to establish a case at this time. Accordingly, Paddlewheel's motion will be denied.

Ohio Valley Electric Corporation ("OVEC") Power Agreement

LG&E is one of 15 owners of OVEC, an electric utility which sells power to the Department of Energy ("DOE") under a contract that expires in October 1992. If the DOE contract is not renewed in 1992, the OVEC power reverts to its owners. LG&E would have rights to 165 MW of OVEC capacity if the contract is not renewed.

KIUC recommended that the Commission implore LG&E to take reasonable steps to enhance the usefulness of the OVEC surplus capacity. KIUC proposed that the Commission hold LG&E financially responsible for the OVEC capacity by refusing to allow additional Trimble County capacity, or other capacity, in rate base so long as LG&E's surplus OVEC entitlement results in sufficient capacity to offset the need for additional Trimble County capacity.

LG&E should take reasonable steps to enhance the usefulness of surplus OVEC capacity and all other available capacity, be it through upgrading its hydro capacity or extending the useful life of Cane Run No. 3. All of these planning issues, and any new conservation programs, can be reviewed under the integrated resource planning regulation. As part of that review, and in future rate cases, the Commission will require that LG&E fully explore OVEC capacity, as well as other capacity alternatives, prior to allowing additional Trimble County capacity in rate base.

Reporting for the Holding Company

In the final Order in Case No. 89-374, the Commission indicated that LG&E should provide certain reports to the Commission concerning the activities of the Holding Company. Since the issuance of that Order, LG&E has become a subsidiary of the Holding Company, as was envisioned in the application in Case No. 89-374. The final Order in Case No. 89-374 did not contain a specific date on which LG&E was to begin providing the listed reports. LG&E should begin filing these reports immediately. Reports due annually should begin with calendar year 1990, and reports due quarterly should begin with the quarter ending December 31, 1990. These reports should be filed with the Commission within 30 days after the end of the reporting period.

SUMMARY

After consideration of all matters of record, the evidence, and being otherwise sufficiently advised, the Commission finds that:

1. The rates in the Appendix, attached hereto and incorporated herein, are the fair, just, and reasonable rates for LG&E to charge for service rendered on and after January 1, 1991.

2. The rates proposed by LG&E would produce revenue in excess of that found reasonable herein and should be denied.

IT IS THEREFORE ORDERED that:

1. The rates in the Appendix be and they hereby are approved for service rendered by LG&E on and after January 1, 1991.

2. The rates proposed by LG&E are hereby denied.

3. The tariff changes authorized herein are approved for service rendered on and after January 1, 1991.

4. Paddlewheel's motions to establish cases to designate a conservation task force and to investigate the status of Cane Run No. 3 be and they hereby are denied.

5. Within 30 days from the date of this Order, LG&E shall file with the Commission revised tariff sheets setting out the rate and tariff changes approved herein.

6. Annual reports concerning the Holding Company shall begin with calendar year 1990, while quarterly reports concerning the Holding Company shall begin with the quarter ending December 31, 1990. LG&E shall file these reports 30 days after the end of the reporting period.

Done at Frankfort, Kentucky, this 21st day of December, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 12/21/90

The following rates and charges are prescribed for the customers in the area served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE

RESIDENTIAL RATE (RATE SCHEDULE R)

RATE:

Customer Charge: $3.29 per meter per month

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

First 600 kilowatt-hours per month	5.905¢ per KWH
Additional kilowatt-hours per month	4.584¢ per KWH

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

First 600 kilowatt-hours per month	6.402¢ per KWH
Additional kilowatt-hours per month	6.555¢ per KWH

WATER HEATING RATE (RATE SCHEDULE WH)

RATE:

Customer Charge: $0.93 per meter per month.

All kilowatt-hours per month 4.339¢ per KWH

Minimum Bill: The customer charge.

GENERAL SERVICE RATE
(RATE SCHEDULE GS)

RATE:

Customer Charge:

$3.89 per meter per month for single-phase service
$7.78 per meter per month for three-phase service

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

All kilowatt-hours per month 6.317¢ per KWH

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

All kilowatt-hours per month 7.102¢ per KWH

SPECIAL RATE FOR ELECTRIC SPACE HEATING SERVICE
RATE SCHEDULE GS

RATE:

Customer Charge: $2.24

For all consumption recorded on the separate meter during the heating season the rate shall be 4.568¢ per kilowatt-hour.

Minimum Bill: The customer charge. This minimum charge is in addition to the regular monthly minimum of Rate GS to which this rider applies.

LARGE COMMERCIAL RATE
(RATE SCHEDULE LC)

RATE:

Customer Charge: $17.09 per delivery point per month

Demand Charge:

	Secondary Distribution	Primary Distribution
Winter Rate: (Applicable during 8 monthly billing periods of October through May)		
All kilowatts of billing demand	$7.33 per KW per month	$5.68 per KW per month
Summer Rate: (Applicable during 4 monthly billing periods of June through September)		
All kilowatts of billing demand	$10.43 per KW per month	$8.53 per KW per month

Energy Charge:

All kilowatt-hours per month 3.139¢

LARGE COMMERCIAL TIME-OF-DAY RATE

RATE:

Customer Charge: $18.92 per delivery point per month

Demand Charge:

Basic Demand Charge	
Secondary Distribution	$3.71 per KW per month
Primary Distribution	$2.01 per KW per month
Peak Period Demand Charge	
Summer Peak Period	$6.72 per KW per month
Winter Peak Period	$3.57 per KW per month

Energy Charge: 3.139¢ per KWH

INDUSTRIAL POWER
(RATE SCHEDULE LP)

RATE:

Customer Charge: $42.22 per delivery point per month

Demand Charge:

	Secondary Distribution	Primary Distribution	Transmission Line
Winter Rate: (Applicable during 8-monthly billing periods of October through May)			
All kilowatts of billing demand	$8.19 per KW per month	$6.24 per KW per month	$5.03 per KW per month
Summer Rate: (Applicable during 4-monthly billing periods of June through September)			
All kilowatts of billing demand	$10.82 per KW per month	$8.88 per KW per month	$7.66 per KW per month

Energy Charge:

All kilowatt-hours per month 2.716¢ per KWH

INTERRUPTIBLE SERVICE

RATE:

The monthly bill for service under this rider shall be determined in accordance with the provisions of either Rate LC, Rate LC-TOD, Rate LP, or Rate LP-TOD, except there shall be an interruptible demand credit of $3.30 per kilowatt per month.

INDUSTRIAL POWER TIME-OF-DAY RATE
(RATE SCHEDULE LP-TOD)

RATE:

Customer Charge: $44.31 per delivery point per month

Demand Charge:	
Basic Demand Charge:	
Secondary Distribution	$5.32 per KW per month
Primary Distribution	$3.34 per KW per month
Transmission Line	$2.13 per KW per month
Peak Period Demand Charge:	
Summer Peak Period	$5.57 per KW per month
Winter Peak Period	$2.96 per KW per month
Energy Charge:	2.708¢ per KWH

OUTDOOR LIGHTING SERVICE
(RATE SCHEDULE OL)

RATE:

	Rate Per Month Per Unit	
	Installed Prior to January 1, 1991	Installed After December 31, 1990
Overhead Service		
Mercury Vapor		
100 watt*	$6.92	$ -0-
175 watt	7.83	9.23
250 watt	8.87	10.32
400 watt	10.80	12.37
1000 watt	19.69	22.32
High Pressure Sodium Vapor		
100 watt	$7.69	$7.69
150 watt	9.84	9.84
250 watt	11.62	11.62
400 watt	12.27	12.27
Underground Service		
Mercury Vapor		
100 Watt - Top Mounted	$12.06	$12.81
175 Watt - Top Mounted	12.83	13.81

High Pressure Sodium Vapor

100 Watt - Top Mounted	$14.19	$14.19
150 Watt	19.33	19.33
250 Watt	22.17	22.17
400 Watt	24.40	24.40

* Restricted to those units in service on 5-31-79.

Special Terms and Conditions:

Company will furnish and install the lighting unit complete with lamp, fixture or luminaire, control device and mast arm. The above rates for overhead service contemplate installation on an existing wood pole with service supplied from overhead circuits only; provided, however, that when possible, floodlights served hereunder may be attached to existing metal street lighting standards supplied from overhead service. If the location of an existing pole is not suitable for the installation of a lighting unit, the Company will extend its secondary conductor one span and install an additional pole for the support of such unit. The customer to pay an additional charge of $1.64 per month for each such pole so installed. If still further poles or conductors are required to extend service to the lighting unit, the customer will be required to make a non-refundable cash advance equal to the installed cost of such further facilities.

PUBLIC STREET LIGHTING SERVICE (RATE SCHEDULE PSL)

RATE:

	Rate Per Month Per Unit	
	Installed Prior to January 1, 1991	Installed After December 31, 1990
Type of Unit		
Overhead Service		
Mercury Vapor		
100 Watt (open bottom fixture)	$6.22	$ -0-
175 Watt	7.28	9.05
250 Watt	8.28	10.15
400 Watt	9.90	12.20
400 Watt (underground pole)	14.31	-0-
1000 Watt	18.39	22.07

High Pressure Sodium Vapor		
150 Watt	8.90	8.90
250 Watt	10.66	10.66
400 Watt	11.10	11.10
Underground Service		
Mercury Vapor		
100 Watt - Top Mounted	10.16	12.55
175 Watt - Top Mounted	11.12	13.63
175 Watt	15.09	21.47
250 Watt	16.12	22.57
400 Watt	18.96	24.62
400 Watt on State of KY Pole	11.21	-0-
High Pressure Sodium Vapor		
100 Watt - Top Mounted	11.17	11.17
150 Watt	19.32	19.32
250 Watt	20.50	20.50
250 Watt on State of KY Pole	10.48	-0-
400 Watt	21.95	21.95
Incandescent		
1500 Lumen	8.29	-0-
6000 Lumen	10.91	-0-

STREET LIGHTING ENERGY RATE
(RATE SCHEDULE SLE)

RATE: $3.972¢ per kilowatt hour

TRAFFIC LIGHTING ENERGY RATE
(RATE SCHEDULE TLE)

RATE:

Customer Charge: $2.45 per meter per month

All kilowatt-hour per month 4.992¢ per KWH

Minimum Bill The customer charge.

SPECIAL CONTRACT FOR ELECTRIC SERVICE
CARBON GRAPHITE SPECIAL CONTRACT

Demand Charge

Primary Power (28,500 KW)	\$11.82 per KW per month
Secondary Power (Excess KW)	\$5.91 per KW per month
Demand Credit for Primary Interruptible Power (24,500 KW)	\$3.30 per KW per month
Energy Charge All KWH	1.946¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
E. I. DUPONT DE NEMOURS SPECIAL CONTRACT

Demand Charge

\$11.14 per KW of billing demand per month

Energy Charge

2.012¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
FORT KNOX SPECIAL CONTRACT

Demand Charge

Winter Rate:
(Applicable during 8 monthly billing periods of October through May)

All KW of Billing Demand	\$6.32 per KW per month

Summer Rate:
(Applicable during 4 monthly billing periods of June through September)

All KW of Billing Demand	\$8.52 per KW per month
Energy Charge: All KWH per month	2.605¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
LOUISVILLE WATER COMPANY SPECIAL CONTRACT

Demand Charge

$7.62 per KW of billing demand per month

Energy Charge

2.138¢ per KWH

GAS SERVICE

The Gas Supply Cost component in the following rates has been adjusted to incorporate all changes through Case No. 10064-J.

GENERAL GAS RATE
G-1

RATE:

Customer Charge:

$4.45 per delivery point per month for residential service
$8.90 per delivery point per month for non-residential service

Charge Per 100 Cubic Feet:

Distribution Cost Component	11.075¢
Gas Supply Cost Component	27.323¢
Total Charge Per 100 Cubic Feet	38.398¢

SUMMER AIR CONDITIONING SERVICE UNDER GAS RATE G-1

RATE:

The rate for "Summer Air Conditioning Consumption," as described in the manner hereinafter prescribed, shall be as follows:

Charge Per 100 Cubic Feet:

Distribution Cost Component	6.075¢
Gas Supply Cost Component	27.323¢
Total Charge Per 100 Cubic Feet	33.398¢

GAS TRANSPORTATION SERVICE/STANDBY
RATE TS

RATE:

In addition to any and all charges billed directly to Company by other parties related to the transportation of customer-owned gas, the following charges shall apply:

Administrative Charge: $90.00 per delivery point per month.

	G-1	G-6
Distribution Charge Per Mcf	$1.1075	$0.5300
Pipeline Supplier's Demand Component	.2032	.2032
Total	$1.3107	$0.7332